ANNUAL REPORT 1996

VALMET

Key Figures

FIM millions	1994	1995	**1996**
Orders booked	8 928	12 131	**10 486**
Order backlog, December 31	6 381	9 699	**8 086**
Net sales	8 328	8 574	**11 764**
Net sales change, %	–22.0	2.9	**37.2**
Operating profit	371	530	**921**
Income after financial items	203	637	**1 056**
Income before taxes	178	719	**1 020**
Net income for the year	173	656	**806**
Exports and international operations	6 753	7 208	**7 891**
Exports and international operations, % of net sales	81.1	84.1	**67.1**
Capital expenditures	266	461	**632**
Research and development	300	374	**493**
Number of personnel, December 31	12 146	12 808	**12 871**
Shareholders´ equity and minority interests	2 533	3 094	**3 283**
Balance sheet total	8 905	9 641	**8 302**
Net debt / equity, %	37.5	–3.2	**–9.5**
Equity ratio, %	33.3	40.6	**42.8**
Return on assets, %	9.4	16.0	**23.4**
Return on equity, %	8.7	20.7	**26.6**
Earnings / share, FIM	2.50	6.74	**10.26**
Dividend / share, FIM	0.50	1.75	**3.00** [1)]
Market value of shares, December 31, FIM millions	3 830	4 638	**6 326**

[1)] Proposal by the Board of Directors

The Annual General Meeting

The Annual General Meeting of Valmet Corporation will be held in Hall A of the Congress Wing of Finlandia Hall, at Karamzininkatu 4, Helsinki, on April 10, 1997, starting at 12.00 noon.

Shareholders who intend to participate in the Annual General Meeting must register in advance, either at room 687 of the Corporate Head Office at Panuntie 6, 00620 Helsinki, by phone +358 9 7770 5607, by fax +358 9 7770 5586 or by mail. All such notifications, including written ones, must be received no later than 4.00 pm on Monday, April 7, 1997. Shareholders are kindly requested to forward authorizations, if applicable, so as to reach the Corporation before the above deadline.

Shareholders, who have entered their shareholdings in the shareholders' register maintained by the Finnish Central Securities Depository Ltd., are eligible to participate if their shares are registered in their own name by March 27, 1997.

A shareholder, whose shares have not been transferred to the book entry system, shall also have the right to participate in the Annual General Meeting, providing that the shareholder has been entered in the Corporation's share register before May 28, 1993. In this case, the shareholder must present his or her share certificate, or some other evidence that ownership of the shares has not been transferred to the book entry system, at the Annual General Meeting.

Notice of the Annual General Meeting will be given in the following newspapers: Helsingin Sanomat, Kauppalehti and Hufvudstadsbladet.

Financial reports

Valmet Corporation will publish two interim reports during 1997. The report for the period January 1 – April 30, 1997 will be published in week 23 (on June 4, 1997), and the report for the period January 1 – August 31, 1997 in week 40 (on October 1, 1997).

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Helsinki Stock Exchange	VAL. HSE
New York Stock Exchange	VA. NYSE

Contents

Valmet's strategy is bearing fruit

Our systematic focus on core businesses has continued and a clear structure has been achieved. Valmet Corporation has been privatized, its capital structure has been strengthened and its operations are profitable. Good profitability ensures that the whole Group will continue to develop, grow and provide a competitive overall return to its shareholders and customers.

Valmet's income after financial items rose to FIM 1,056 million, and earnings per share improved by 52 % on the previous year, to reach FIM 10.26. This performance was in line with our goals and encourages us to continue our efforts to further improve profitability.

Valmet aims to maintain global leadership – in terms of technology, market share and profitability – well into the coming millenium. Continuous investment in research and development has made the Company a high tech enterprise which has already reaped practical rewards from such activity. For example, the Technology Center inaugurated in Jyväskylä at the beginning of 1996 has already significantly influenced the winning of orders. At the same time, our innovations have created new business opportunities for our customers.

While continuing to develop challenging quality systems, we have also started to construct environmental management systems in our operating units, in accordance with ISO 14000 standards. Working together with our customers, we are attempting to develop pulp and paper industry process solutions that are both more efficient and less harmful to the environment.

The markets of Valmet's main customers, the forest product companies, have traditionally been regarded as highly volatile. Pulp and most paper grade prices have fallen sharply since the end of 1995. The main factors behind this have been dramatic fluctuations in stocks and concerns about over-capacity, even though the ratio of new investment to the growth of consumption has remained reasonable. Prices have now stabilised, but attempts to increase pulp prices in late 1996 were not sustained.

The prevailing market has reduced our customers' willingness to invest and has led to the postponement of many planned projects. Customers in North America and Western Europe have been especially cautious. In Asia, however, good growth prospects have sustained demand. It is expected that such tight competition and uncertainty will continue well into 1997.

To minimize its own vulnerability to market fluctuations, Valmet has continued to systematically expand its international marketing and service network. This means that, in addition to new machines, we will increasingly emphasize machine rebuilds and, in particular, service operations. About one fifth of the Group's business operations are unaffected by forest product industry fluctuations.

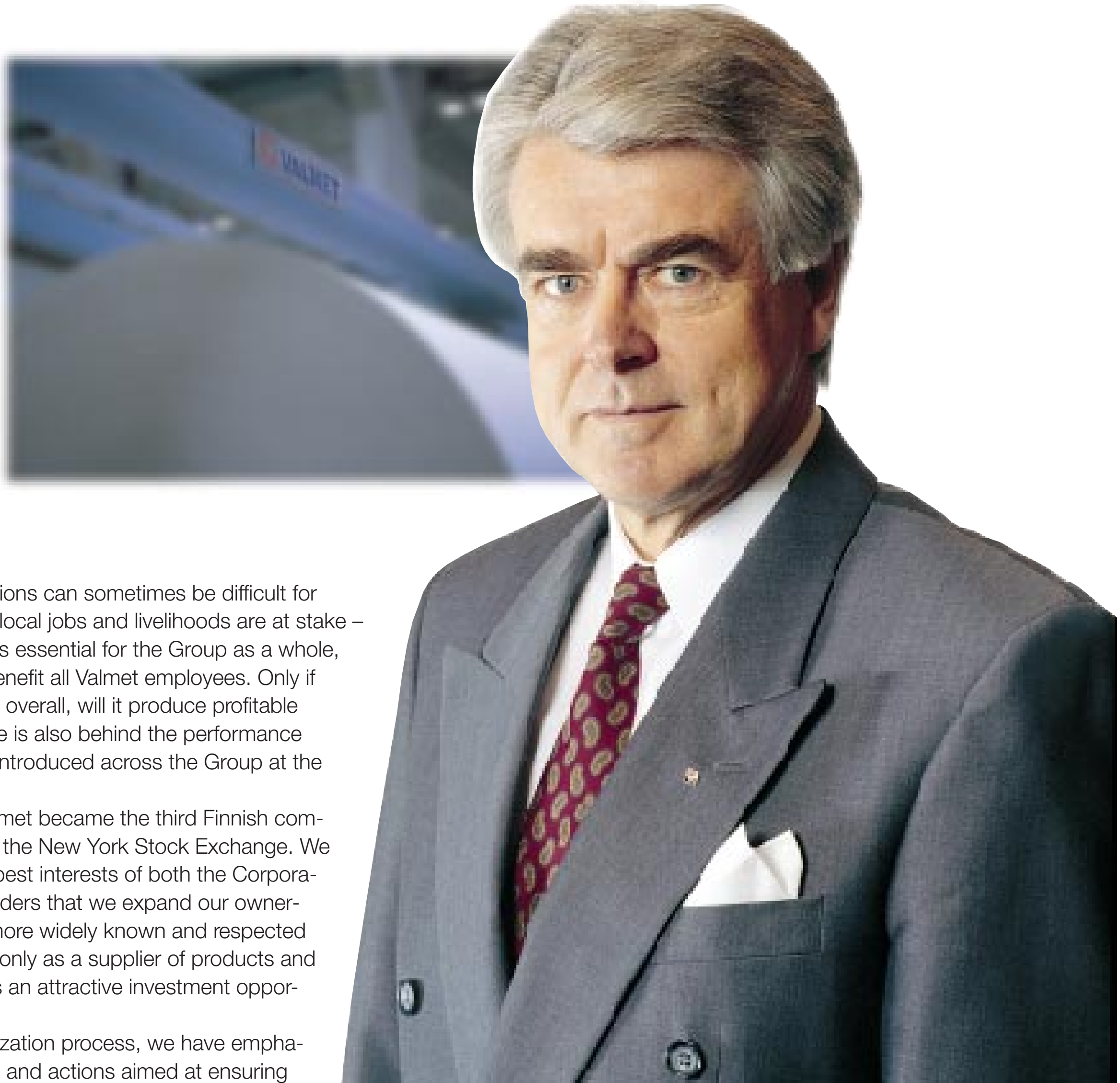
Valmet's traditional customers in Europe have been successful. We have also delivered most of North America's new papermaking capacity in the 1990's. Of the Asian countries, South Korea, Thailand and Indonesia in particular have ordered a significant number of new complete paper machines from Valmet. To better serve our existing and new customers in this region, a Technology Center is currently under construction in Thailand. The center will be inaugurated in the fall of 1997.

Valmet intends to increase market share in its strongest markets through technological superiority and high quality. At the same time, we are strengthening our resources in Asia and South America – regions with high paper consumption growth rates. In the fall of 1996, Valmet established a sales company in Chile.

In recent years, Valmet's modus operandi has changed from local production to a global network that provides its customers with a total service, based on knowledge and expertise. Valmet's employees are being given increasingly demanding tasks to perform. The expertise available throughout Valmet's Group-wide network will be greatly enhanced in the coming years.

Our aim is to transfer many of the processes that previously tied up our resources to competent subcontractors, while Valmet increasingly focuses on producing and developing key components and complete processes. As much as 40 % of Valmet's production can be carried out by subcontracting, when required, provided that the components fully meet our customers' high standards. In recognition of the development of its subcontracting system, the Finnish Association of Materials Management nominated Valmet as Main Supplier of the Year in 1996.

Much has been done within the Group to rationalize product divisions and improve production control globally. The concentration of roll production, for example, in just a handful of units improves profitability and, at the same time, allows resources to be allocated better and more flexibly to a small number of knowhow centers.



While such decisions can sometimes be difficult for individual units – as local jobs and livelihoods are at stake – they are nevertheless essential for the Group as a whole, and will ultimately benefit all Valmet employees. Only if Valmet is successful overall, will it produce profitable results. This principle is also behind the performance related pay system introduced across the Group at the beginning of 1997.

In May 1996, Valmet became the third Finnish company to be listed on the New York Stock Exchange. We consider it is in the best interests of both the Corporation and its shareholders that we expand our ownership base and are more widely known and respected internationally – not only as a supplier of products and services, but also as an attractive investment opportunity.

During the privatization process, we have emphasized clear solutions and actions aimed at ensuring the best possible returns for all shareholders. In June 1996, the State of Finland relinquished its majority holding in Valmet and successfully sold 27 million shares to institutional investors and the general public. At the same time, the Corporation purchased seven million of its own shares from the State. These shares were subsequently cancelled thus improving the key ratios and returns per share. Overall state ownership was reduced from 59 % to 20 %. A significant advance has therefore been made in privatizing Valmet and broadening its ownership structure, while increasing its market value and improving liquidity in its shares.

Valmet's success in 1996 was achieved through hard, determined work. I wish to thank all our employees, and all our subcontractors and suppliers, for your fine contributions, good cooperation and commitment to Valmet's goals.

My special thanks go to Valmet's customers and shareholders for the faith you have shown in us. We, at Valmet, pledge to do our utmost to preserve your trust in our activities in the future, at all stages of the business cycle, everywhere in the world.

Helsinki, February 25, 1997

Matti Sundberg

Shares and Shareholders' Equity

Valmet Corporation's share capital totals FIM 851 million. According to Valmet's Articles of Association there is one series of shares. The total number of shares issued and outstanding is 78,100,000. On March 25, 1996 the Annual General Meeting approved certain amendments to the Articles of Association including a two-for-one share split. On June 7, 1996 the Corporation redeemed and cancelled 7,001,430 shares as tendered by the Finnish State. The redemption price of FIM 494 million or FIM 70.62 per share was paid out of retained earnings without reducing the amount of paid-in share capital.

No shareholder can vote with more than 80 % of the total votes represented at the General Meeting. According to the Corporation's Articles of Association a shareholder whose total shareholding or voting rights reach or exceed 33 1/3 % or 50 %, shall, upon demand, acquire the shares held by other shareholders at a price specified in the Articles.

The Corporation's shares have been quoted on the Helsinki Stock Exchange since 1988. The shares have been joined to the book entry securities system, in which shareholdings are registered in book entry accounts held by various book entry registrars. Foreign shareholders may alternatively register their shares in nominee accounts administered by a custodian. Nominee-registered shares have no voting rights.

Valmet Corporation filed with the Securities and Exchange Commission of the USA a Registration Statement with respect to its shares on May 30, 1996 in connection with the global secondary offering by the Finnish State. The American Depository Shares (ADS) were approved for listing on the New York Stock Exchange, and trading started under a sticker VA on May 31, 1996. Each ADS represents two ordinary shares.

In June, 1996, the State of Finland sold in secondary public offerings a total of 26.9 million shares to institutional and retail investors. The subscription price was FIM 73.00 per share. These together with the redemption offer to the Company reduced the State's ownership from 59 % to 20 %. The funds raised in these transactions amounted to FIM 2.4 billion. The number of registered shareholders more than doubled, exceeding 12,000 and the portion of shares held in nominee accounts by foreign shareholders increased from 31 % at the end of 1995 to 51 % at the end of 1996.

During 1996, 45.0 million Valmet shares were traded on the Helsinki Stock Exchange at an average price per share of FIM 68.95. The number of ADSs traded on the New York Stock Exchange was 2.9 million, and the average price was USD 31.83 per ADS. Of that trading volume, 1.5 million shares were recorded during the first day of listing. The number of shares exchanged on the SEAQ International System in London was 105.5 million.

The 1994 Annual General Meeting approved an issue of bonds with warrants, valued at FIM 500,000, to members of Valmet Corporation's senior management. The bonds are valid for five years, carrying an interest rate of 5 % and an issue price of 100 %. The warrants entitle the holders to subscribe to a maximum of 1,000,000 shares from December 1, 1998 to January 31, 2001, at a subscription price of FIM 60.00. The bonds with warrants have been completely subscribed. No other bonds with warrants or convertible bonds were outstanding during 1996.

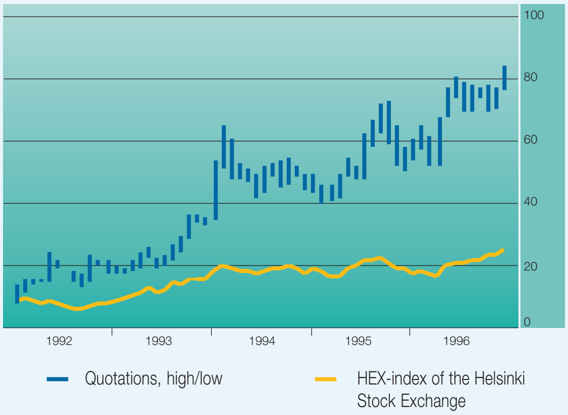
The Board of Directors does not currently have an authorization to increase share capital.

Share Data	1992	1993	1994	1995	**1996**
Share capital, Dec. 31, FIM millions	711	711	851	851	**851**
Number of shares					
Number of shares, Dec. 31	71 101 430	71 101 430	85 101 430	85 101 430	**78 100 000**
Average number of shares	68 652 114	71 101 430	79 079 512	85 101 430	**81 130 756**
Trading volume, Helsinki Stock Exchange	1 191 420	22 653 694	26 552 340	24 751 770	**44 980 204**
Share issues, FIM millions					
Increase in share capital	60		140		
Surplus over nominal value	120		505		
Number of shares redeemed and cancelled	–	–	–	–	**7 001 430**
Dividend, FIM millions	–	–	43	149	**234** [1]
Dividend / share, FIM	–	–	0.50	1.75	**3.00** [1]
Dividend yield, %	–	–	1.1	3.2	**3.7**
Earnings / share, FIM	–5.86	2.73	2.50	6.74	**10.26**
P/E ratio		13.00	18.02	8.09	**7.89**
Cash flow / share, FIM	3.19	11.14	8.22	11.35	**15.88**
Equity / share, FIM	26.07	27.48	29.45	36.03	**41.57**
Nominal value, FIM	10	10	10	10	**10**
Highest quotation, FIM	24.25	36.50	64.50	72.50	**83.50**
Lowest quotation, FIM	7.75	17.00	34.50	39.50	**52.00**
Quotation, Dec. 31, FIM	17.50	34.50	45.00	54.50	**81.00**
Market value of shares, Dec. 31, FIM millions	1 244	2 453	3 830	4 638	**6 326**

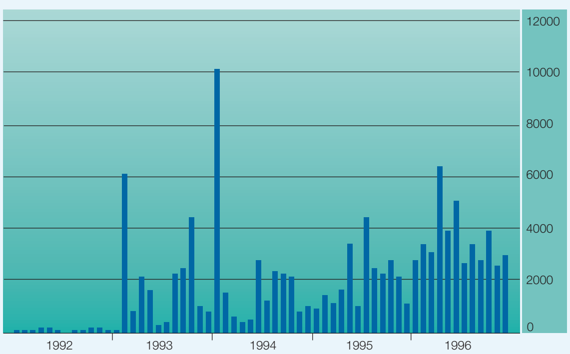
[1] Proposal by the Board of Directors

The two-for-one share split has been taken into account in the table above for all years presented.

Monthly Trading Range of Valmet Shares on the Helsinki Stock Exchange, FIM



Monthly Turnover of Shares on the Helsinki Stock Exchange, 1,000 shares



ADS Data

(Each ADS represents two shares)	**1996**
Trading volume, New York Stock Exchange	**2 926 700**
Earnings/ADS, USD	**4.42**
Highest quotation, USD	**35.25**
Lowest quotation, USD	**30.00**
Quotation, Dec 31, USD	**34.75**

Shareholders by Category Dec 31, 1996	Number of shareholders	% of shareholders	% of shares
Companies	498	4.0	2.2
Financial institutions and insurance companies	97	0.8	15.3
Public institutions	8	0.1	22.5
Foundations and associations	216	1.8	3.9
Private individuals	11 415	93.0	5.1
Foreign shareholders	34	0.3	0.1
Registered shareholders, total	12 268	100.0	49.1
Nominee registered			50.8
Shares not converted into book entries			0.1
Shareholdings, total			100.0

Shareholders Dec 31, 1996	Number of shareholders	Number of shares	% of shares
The Finnish Government		15 901 868	20.4
Pension Insurance Company Ilmarinen Ltd.		2 667 000	3.4
Pension-Sampo Insurance Company		1 347 000	1.7
The Local Government Pensions Institution		1 249 300	1.6
Pension-Varma Mutual Insurance Company		1 146 300	1.5
Industrial Insurance Company Ltd.		850 000	1.1
Kaleva Mutual Insurance Company		730 000	0.9
Pohjola Insurance Company Ltd.		641 400	0.8
Valmet Corporation Personnel Fund		590 600	0.8
Suomi Mutual Life Assurance Company		570 000	0.7
Sampo Insurance Company Limited		500 000	0.6
Salama Life Assurance Company		494 000	0.6
Social Insurance Institution		372 000	0.5
Sampo Enterprise Insurance Company Limited		295 000	0.4
Nova Life Insurance Company		271 500	0.3
The Central Church Fund		224 600	0.3
Otso Loss of Profits Insurance Company Limited		200 000	0.3
	17	28 050 568	35.9
Other shareholders, shares / shareholder			
100 001 – 199 999	10	1 424 500	1.8
10 001 – 100 000	122	3 915 237	5.0
5 001 – 10 000	99	747 667	1.0
1 001 – 5 000	629	1 393 094	1.8
501 – 1 000	1 782	1 373 477	1.8
101 – 500	4 920	1 173 709	1.4
1 – 100	4 689	320 593	0.4
Nominee registered		39 639 695	50.8
Shares not converted into book entries		61 460	0.1
Total	12 268	78 100 000	100.0

Members of the Company Supervisory Board and the Board of Directors own a total of 5,660 shares, i.e. 0.007 % of the total votes carried by all stock. Additionally they hold warrants to subscribe 0.5 % of the share capital.

Further Improvement in Result

Valmet achieved good results in 1996. Income after financial items, MFIM* 1,056, was 66 % better than last year. Consolidated net sales grew to MFIM 11,764, an increase of 37 % on 1995.

* MFIM = FIM millions

New orders worth MFIM 10,486 were gained, and the order backlog for the coming years remains good, at MFIM 8,086. Profitability rose as a result of volume growth and improved productivity. Net financial income increased and the balance sheet was further strengthened. Earnings per share rose by 52.2 % to FIM 10.26.

A total of 11 Valmet-supplied paper, board and pulp machines were commissioned in 1996 – four in the Nordic countries, four in Asia, and three in North America. As the Nordic deliveries were very large, an exceptional 48 % of Valmet's net sales derived from this region in 1996. 18 % of net sales were derived from other European countries, over 21 % from the Americas, 12 % from Asia and less than 1% from other countries.

Of the 13 orders booked in 1996 for new, complete paper and board machines, seven were from Asia, five were from North America and one from the Nordic countries. It is believed that in 1997 investments will pick up in North America and Europe, due to rising paper prices, and level off somewhat in Asia. South American markets are expected to become slightly more active.

As part of Valmet's efforts to develop new markets, construction of a South East Asian paper and board machine technology center in Thailand began in December 1996. The center, located at Laem Chabang near Bangkok, will be inaugurated in late summer 1997.

In July 1996, Valmet and Kavanoe Zoki of Japan signed a tissue machine sales cooperation agreement. The objective is to combine Kavanoe Zoki's market and customer knowledge with Valmet's tissue machine know-how for the benefit of both partners in the Japanese market.

At the beginning of September, Valmet established a Latin American sales company in Chile.

The Paper and Board Machinery Group's 1996 net sales totalled MFIM 9,602, an increase of 46 % on the previous year. Operating profit was MFIM 705, an increase of 66 % on 1995. New orders worth MFIM 8,442 were booked.

Valmet Power Transmission was included in Valmet's core businesses at the beginning of September. Power Transmission's net sales grew by over MFIM 100 in 1996, reaching MFIM 369. Operating profit doubled to MFIM 41.

Valmet Automation's net sales grew by more than 25 % to MFIM 1,581. There was growth in all business units and in almost all markets, especially so in Central and Northern Europe. Operating profits grew by one third to MFIM 140. Valmet Automation expanded its distribution network to Chile and Poland.

Valmet Automotive's net sales increased by nearly 25 % to reach MFIM 477. In practice, this is equivalent to the value added in assembly. Operating profit was MFIM 105. More than 28,500 automobiles were produced at the Uusikaupunki plant in 1996.

In addition to sole production rights to the Saab 900 Cabriolet and Opel Calibra models, Valmet Automotive started assembling the Euro-Samara in the fall of 1996, in cooperation with the Russian automobile plant, Avtovaz. Over the next three years, Valmet Automotive plans to assemble 60,000 Euro-Samaras, redesigned for West European markets. At the project start up stage, production has fallen below projected levels.

Valmet Automotive has already announced that a letter of intent has been signed with Porsche AG in early 1997 with regard to the assembly of Porsche Boxster sports cars at the Uusikaupunki plant. Production is due to commence in fall 1997 at a rate of at least 5,000 automobiles per annum.

CHANGES IN PRODUCT SHOP NETWORK AND CORPORATE STRUCTURE The development of Valmet's global product shop network continued, with the aim of improving customer service, increasing market share and raising profitability.

In North America, a paper machine technology center was established at the Charlotte unit. The Montreal unit is focusing on production of special heavy rolls and the Hudson Falls unit on service operations. These changes resulted in personnel reductions, the costs of which have been included in 1996's results.

The Tampere Board Machine Work's tube roll production is being transferred to new premises at Lahdesjärvi near Tampere in spring 1997. Valmet's tube roll production is being concentrated at Tampere, Como and Montreal. Correspondingly, suction roll production is the responsibility of Jyväskylä and Montreal. Headbox production has been assigned to the Jyväskylä, Karhula and Charlotte units. Overall, these measures should not result in significant personnel reductions at the Group level.

Valmet is adapting its air systems production at the Pansio Works in Turku, to ensure this product group's future competitiveness, profitability and strong market position. Labor requirements will be reduced by approximately 130 persons by the end of 1997. Valmet is also adapting its converting machinery production in Casale, Italy, to strengthen profitability and competitiveness in tough markets.

Valmet has now implemented the structural renewal it planned at the beginning of the 1990's and is focusing on paper machinery manufacture. In continuation of this restructuring, a majority shareholding (50.1 %) in Valmet Aviation Industries Inc. was sold to the Finnish State at the beginning of 1996 for a net price of MFIM 60. The total value of the business operations was set at MFIM 386, including interest-bearing liabilities of MFIM 266.

Valmet continues to own 49.9 % of this company, which has been renamed Finavitec. The State can at any time buy out Valmet's minority interest, and Valmet can, after a three-year transition period, sell its minority interest to the State, enhanced by any post-sale capital investment made in the company. Finavitec is not included in the financial statements as an associate company.

Valmet Rotomec S.p.A. strengthened Valmet's converting business at the beginning of 1996 with the purchase of MAF S.p.A., an Italian company that manufactures flexo printing machines.

According to a previous announcement, Valmet-Karhula Inc. was merged with Valmet Corporation on January 2, 1996.

On September 1, 1996, Power Transmission's hydraulic motors unit was incorporated as Valmet Hydraulics Inc., a sub-

Juhani Riutta *Markku Kangas* *Mauri Jaakonaho* *Matti Sundberg* *Raimo Taivalkoski* *Jaakko Rauramo* sidiary of Valmet Power Transmission Inc. In November 1996, Valmet sold its lumber dry kiln unit in Turku to the Swedish company Utec sm AB, retaining a 20 % minority shareholding.

In February 1997, Valmet and Rautaruukki Corporation announced the establishment of a joint venture company, PreSteel Oy, specializing in the pre-treatment of hot rolled steel plate. Rautaruukki and Valmet respectively own 55 % and 45 % of this new company. PreSteel will produce pre-formed tube rolls at Raahe, Northern Finland, for Valmet's domestic needs.

In accordance with preliminary agreements drawn up at the beginning of 1997, Valmet is selling its 25.4 % holding in Oy Sisu Ab to Partek Corporation in return for about 5.1 million Partek shares (equivalent to a holding of approximately 10.5 % of Partek) together with a cash payment of about MFIM 34. The impact of the sale on Valmet's 1997 results and shareholders' funds will primarily be determined by the movement of Partek's share price.

DEVELOPMENT INVESTMENTS In accordance with its strategy, Valmet has continued to invest heavily in R & D, quality improvement and training. The Corporation's goal is technological leadership in its field.

In cooperation with customers, universities and research institutes, Valmet is continuously developing productivity and environmental improvements to existing processes, machinery and equipment, as well as new paper grades that better meet customer needs, and new patented spearhead products.

As a result of the new Technology Center, which was inaugurated at Jyväskylä in February 1996, Valmet is now capable of responding to the most demanding research needs of its customers. The new pilot paper machine has already benefited several new paper machine orders. Total investment in the Technology Center, which was spread over the period 1994-96, totalled about MFIM 200.

During 1996–97, over MFIM 40 is being invested in a coater rebuild at the Järvenpää Pilot Plant. The rebuild is due to be completed in the fall of 1997. An extension at the Air Systems' Research Center in Turku also started last year.

Valmet's total R & D expenditure in 1996 was MFIM 493, or 4.2 % of net sales, including MFIM 151 in capital expenditure.

The most successful developments at the paper machine wet end include the application of the Speed-Former gap former to an increasing number of paper and board grades, and a dilution headbox.

The most significant innovation at the dry end launched in 1996 was the Condebelt dryer solution. Experience gained from its first year of operation at Enso's Pankakoski board mill in Finland show that the invention has substantially exceeded expectations. The project generated considerable development costs.

The success of Valmet's finishing systems technology is ensured by new generation products such as the WinRoll winder, and the OptiLoad calender whose first delivery was successfully commissioned in 1996.

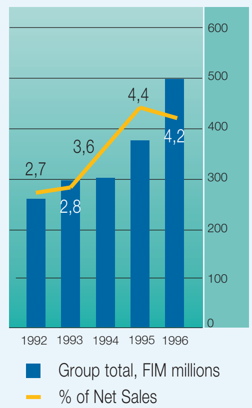
Air dryers have been a success in coating drying. The first Valmet-supplied airborne dryer for pulp was commissioned at the Metsä-Rauma pulp mill in 1996. Metsä-Rauma nominated Valmet's air dryer delivery as the best single delivery in its pulp mill project. More that 200 equipment suppliers were involved in the project.

Valmet Automation also continued its heavy investment in R & D. Its share of total R & D expenditure was MFIM 113, equivalent to 7.1 % of Automation's net sales. The Damatic XD*i* system launched in June was rated as the most innovative process control system at the Het Instrument Trade Fair in Holland.

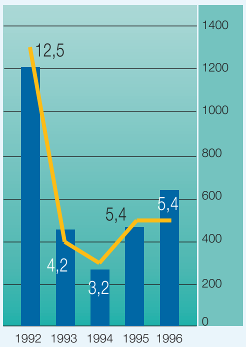
The Valmet Group's 1996 capital expenditure totalled MFIM 632, or 5.4% of net sales. Production investment amounted to MFIM 393. The most significant investments included the adaptation of the paint shop for waterborne base coat painting at the Uusikaupunki automotive plant, the building and extension of several service centers, and the introduction of automatic machining systems in the power transmission and paper finishing businesses.

Research and Development, FIM millions	1992	1993	1994	1995	**1996**
Paper and Board Machinery	143	175	199	256	**329**
Power Transmission	–	1	2	6	**6**
Automation	48	65	80	99	**113**
Automotive	16	14	16	13	**17**
Others	2	4	3	–	**28**
Subtotal	209	259	300	374	**493**
Operations sold:					
Aviation Industries	3	1	–	–	**–**
Operations sold to Sisu	44	35	–	–	**–**
Subtotal	47	36	–	–	**–**
Group total	256	295	300	374	**493**

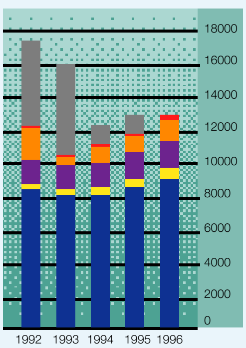
Research and Development/ Net Sales, FIM millions



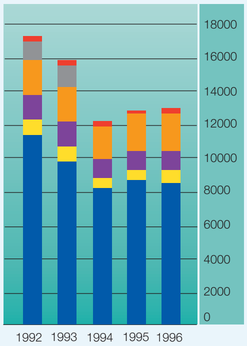
Capital Expenditures/ Net Sales, FIM millions



Personnel by Business Group



Personnel by Region



Capital Expenditures, FIM millions	1992	1993	1994	1995	**1996**
Paper and Board Machinery	341	195	165	326	**374**
Power Transmission	1	13	14	21	**51**
Automation	21	27	31	35	**42**
Automotive	44	15	9	23	**103**
Others	717	53	36	47	**62**
Subtotal	1 124	303	255	452	**632**
Operations sold:					
Aviation Industries	11	20	11	9	**–**
Operations sold to Sisu	74	124	–	–	**–**
Subtotal	85	144	11	9	**–**
Group total	1 209	447	266	461	**632**

Throughout 1996, Valmet continued to invest heavily in the development of total operational quality. Existing ISO 9000 certifications were reconfirmed and, at the same time, all units developed their operations and competitiveness by means of quality award criteria. A start was made in building environmental management systems in the operating units, in accordance with ISO 14000 standards.

In environmental policy, Valmet aims to anticipate society's expectations regarding technological development, and also the environmental effects of products throughout their life cycles. In cooperation with customers and subcontractors, Valmet aims to constantly develop customer processes to achieve lower energy and water consumption together with more efficient utilization of raw materials, and to reduce emissions and effluents.

Human resources The average number of Group employees in 1996 was 13,015 (12,578), with 12,871 (12,808) employed at the end of the year. The comparative figure for 1995 includes Finavitec personnel (the former Valmet Aviation Industries Inc.), which, at the end of December, 1995, employed 970 people.

Personnel by Business Group	1992	1993	1994	1995	**1996**
Paper and Board Machinery	8 426	8 103	8 193	8 674	**9 042**
Power Transmission	388	360	361	364	**416**
Automation	1 395	1 443	1 560	1 711	**1 931**
Automotive	1 921	514	867	876	**1 258**
Others	187	196	208	213	**224**
Subtotal	12 317	10 616	11 189	11 838	**12 871**
Operations sold:					
Aviation Industries	933	1 047	957	970	**–**
Operations sold to Sisu	3 954	4 053	–	–	**–**
Subtotal	4 887	5 100	957	970	**–**
Group total	17 204	15 716	12 146	12 808	**12 871**

Personnel by Region	1992	1993	1994	1995	**1996**
Finland	11 468	9 976	8 349	8 729	**8 614**
Other Nordic countries	1 058	948	628	689	**768**
Other Europe	1 401	1 328	1 058	1 094	**1 173**
North America	2 011	2 109	2 007	2 182	**2 191**
South America	1 155	1 223	–	–	**–**
Asia	30	48	33	54	**80**
Other countries	81	84	71	60	**45**
Group total	17 204	15 716	12 146	12 808	**12 871**

As required by an EU directive, employer-employee cooperation within Valmet Group was agreed, and the first international Valmet Forum was held in June 1996.

An in-house doctoral education program, the "Valmet Academy", was established in cooperation with certain universities to support the development of Valmet's core technologies. A renewed Valmet Leadership Program (VLP) was implemented in cooperation with IMD, and the timetable for fulfilment of the traditional Valmet Edge Program was condensed. In addition to these leadership training programs, other programs relating to product and technological training, quality, information technology, development of the work environment, and language and culture were all emphasized.

Supplementary personnel training days totalled nearly 50,000 or, on average, four days per employee. Investment in training, excluding participants' wages and salaries, amounted to MFIM 64, or 2.8 % of total staff costs.

New principles concerning performance related pay were introduced at the end of 1996. As a result, the entire personnel will be rewarded for improvements in the Group's results. In addition, improvements in operational efficiency at all levels of the organization will be measured and rewarded. At the same time, the aim is to minimize wage drift.

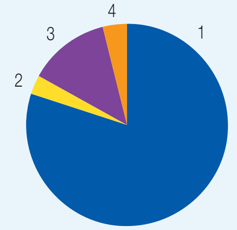
NET SALES AND INCOME Valmet Group's 1996 net sales totalled MFIM 11,764, an increase of 37 % on the previous year. New orders worth MFIM 10,486 were booked, and the order backlog at the end of 1996 stood at MFIM 8,086. Exports and the Group's international operations accounted for 67 % of net sales. This percentage was affected by unusually large deliveries to Finnish customers in 1996.

The Group's gross profit was MFIM 2,778, or 24 % of net sales, and operating profit MFIM 921. Income after financial items was MFIM 1,056 (MFIM 637) and income before taxes MFIM 1,020 (MFIM 719). Net income for the year was MFIM 806 (MFIM 656). The consolidated balance sheet shows the Group's unrestricted equity as MFIM 1,037 (MFIM 865)

Net Sales by Business Group, FIM millions	1992	1993	1994	1995	**1996**
Paper and Board Machinery	4 062	5 249	5 470	6 560	**9 602**
Power Transmission	131	145	194	267	**369**
Automation	902	980	1 023	1 253	**1 581**
Automotive	1638	861	381	388	**477**
Other	80	78	80	7	**–**
Subtotal	6 813	7 313	7 148	8 475	**12 029**
Operations sold:					
Aviation Industries	202	256	266	283	**–**
Operations sold to Sisu	2 808	3 341	1 106	–	**–**
Subtotal	3 010	3 597	1 372	283	**–**
Less inter-business eliminations	–178	–234	–192	–184	**–265**
Group total	9 645	10 676	8 328	8 574	**11 764**

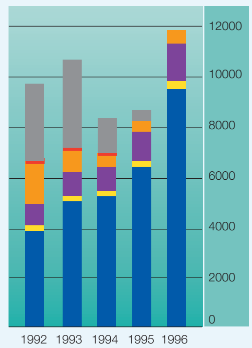
Net Sales by Market Area, FIM millions	1992	1993	1994	1995	**1996**
Finland	2 269	1 838	1 575	1 365	**3 873**
Other Nordic countries	898	2 041	841	1 068	**1 722**
Other Europe	2 472	1 920	1 831	1 642	**2 132**
North America	2 221	2 344	2 310	2 558	**2 246**
South America	809	1 177	537	175	**274**
Asia	850	1 034	848	1 453	**1 430**
Other countries	126	322	386	313	**87**
Group total	9 645	10 676	8 328	8 574	**11 764**

Net Sales by Business Group 1996, %



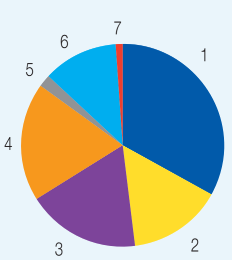
1	Paper and Board Machinery	82 %
2	Power Transmission	2 %
3	Automation	12 %
4	Automotive	4 %

Net Sales by Business Group, FIM millions



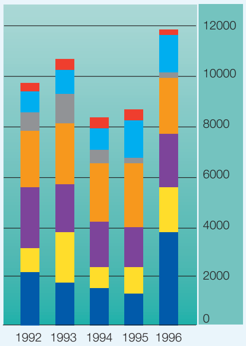
- Operations sold
- Others
- Automotive
- Automation
- Power Transmission
- Paper and Board Machinery

Net Sales by Market Area 1996, %



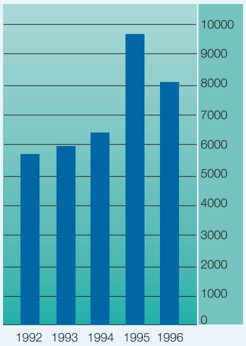
1	Finland	33 %
2	Other Nordic countries	15 %
3	Other Europe	18 %
4	North America	19 %
5	South America	2 %
6	Asia	12 %
7	Other countries	1 %

Net Sales by Market Area, FIM millions



- Other countries
- Asia
- South America
- North America
- Other Europe
- Other Nordic countries
- Finland

Order Backlog, Dec 31, FIM millions



Group's Financial Performance, FIM millions	1992	1993	1994	1995	**1996**
Operating profit					
Business groups:					
Paper and Board Machinery	–59	182	235	425	**705**
Power Transmission	6	19	22	21	**41**
Automation	61	77	80	101	**140**
Automotive	307	74	92	94	**105**
Other	7	32	5	4	**–5**
Subtotal	322	384	434	645	**986**
Operations sold:					
Aviation Industries	–23	–1	–36	–7	**–**
Operations sold to Sisu	–30	176	53	–	**–**
Total	–53	175	17	–7	**–**
Total	269	559	451	638	**986**
Less unallocated corporate overhead and inter-business eliminations	–98	–80	–80	–108	**–65**
Operating profit, total	171	479	371	530	**921**
Financial income and expenses	–469	–379	–220	27	**115**
Share of profits or losses of associated companies			52	80	**20**
Income after financial items	–298	100	203	637	**1 056**
Extraordinary income and expenses	79	–154	–25	82	**–36**
Income before taxes	–219	–54	178	719	**1 020**

and distributable funds as MFIM 1,016. The parent company's unrestricted equity was MFIM 983 (MFIM 1,183). Consolidated earnings per share were FIM 10.26 (FIM 6.74) and cash flow per share FIM 15.88 (FIM 11.35). Net income for the year according to US GAAP was MFIM 767, and earnings per share FIM 9.45.

1996 operating profits were burdened by non-recurring expenses of approximately MFIM 100 due to the reorganization of the Group's structure and the rationalization of operations, especially in North America. These costs include relocation costs, severance costs and write-offs of certain assets.

Since January 1, 1996, Valmet has applied the percentage of completion method for revenue recognition in long-term projects. Extraordinary items include a gain of MFIM 53, which would have been applied to 1995 operating profit, if the percentage of completion method had been used in the Group's 1995 financial statements.

Extraordinary items also include an additional expense of MFIM 110, relating to legal proceedings that started in 1990 with regard to the bankruptcy of Wärtsilä Marine Industries Inc., and which increased the previously taken MFIM 80 expense. A settlement reached in June 1996 finally terminated all disputes and court actions involving the parties concerned in the Marine bankruptcy. Valmet has paid the bankruptcy estate MFIM 190, in accordance with the provisions already made and publicly notified. A gain of MFIM 19 from the sale of Aviation Industries has also been included in extraordinary items.

The Corporation's market capitalization stood at MFIM 6,326 (MFIM 4,638) at the year end. The book value per share was FIM 41.57 (FIM 36.03).

Consolidated Balance Sheet, FIM millions	1992	1993	1994	1995	**1996**
Paper and Board Machinery	6 637	6 496	5 242	5 038	**4 568**
Power Transmission	132	160	188	213	**239**
Automation	948	860	804	877	**818**
Automotive	1 134	810	638	387	**493**
Others	236	149	1 644	2 691	**2 184**
Subtotal	9 087	8 475	8 516	9 206	**8 302**
Operations sold:					
Aviation Industries	377	483	389	435	**–**
Operations sold to Sisu	2 736	2 808	–	–	**–**
Subtotal	3 113	3 291	389	435	**–**
Group total	12 200	11 766	8 905	9 641	**8 302**

FINANCING AND BALANCE SHEET STRUCTURE The Group's liquidity remained good throughout the year. Liquid assets, i.e. cash and short-term investments, were MFIM 1,602 (MFIM 2,074) at the end of the accounting period, and the ratio of current assets to current liabilities was 1.3 (1.3). In reviewing the figures, it should be noted that the company redeemed and cancelled its own shares to the value of MFIM 494. The return on net assets before extraordinary items was 23.4 % (16.0 %). The return on equity was 26.6 % (20.7 %).

The balance sheet total was MFIM 8,302 (MFIM 9,641). The decrease from the previous year is primarily due to the netting of cost and earnings of uncompleted long-term projects with the advance payments received. The Group's equity ratio was 42.8 % (40.6 %), and the parent company's 55.5 % (55.8 %). Interest-bearing debt was reduced by MFIM 685, to MFIM 1,290. The Group's cash and short-term investments less interest-bearing debt amounted to MFIM 312, or 9.5 % (3.2 %), of equity.

The Group's cash flow after investment was MFIM 709. Financial status and creditworthiness are extremely good.

Net financial income was MFIM 115 (MFIM 27), of which MFIM 64 (MFIM 10) resulted from foreign exchange gains. A considerable proportion of the Group's cash flow is received in currencies other than Finnish markka. The major currency in terms of sales income is the US dollar. The effects of exchange rate fluctuations are cushioned by the fact that Valmet manufactures in different countries and therefore makes transactions in local currencies. In addition, assets and order backlog in different currencies are hedged by loans and financial instruments denominated in those currencies based on firm cash flows for a few months ahead.

OUTLOOK The markets of Valmet's main customers, the forest product companies, have been unstable, partly as a result of large fluctuations in inventories. Although the decline in pulp and many paper grade prices has all but stopped, attempts to raise the price of pulp at the end of 1996 were not successful. The prevailing market situation has decreased the willingness of customers to invest and planned projects have been postponed. Tight competition and uncertainty is expected to continue into the first half of 1997.

To reduce its sensitivity to business cycles, Valmet is continuing a policy of extending its international marketing and service network. Greater efforts are being made to sell machine rebuilds and service in addition to new machines, the aim being to maintain satisfactory profitability through all stages of the business cycle.

Continuous technology development will also strengthen Valmet's competitiveness in the years ahead. During downturns in the cycle, customers' changing needs can be met by renewing their machines. For this purpose, new spearhead products are being developed in cooperation with customers in each market.

The 1997 outlook for Group profitability and profit development remains good.

PROPOSAL OF BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT
The Board proposes to the Annual General Meeting that a dividend of FIM 3.00 per share be paid for the financial year ended December 31, 1996. The record date is April 15, 1997. The dividend will be paid to all shareholders who, on the record date, are recorded in the register of shareholders of Valmet Corporation, which is held by the Finnish Central Securities Depository Ltd. The dividend will be paid on April 22, 1997.

Helsinki, February 25, 1997

Matti Sundberg
Chairman of the Board
Chief Executive Officer

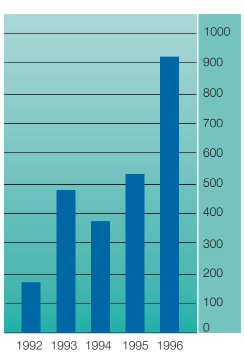
Mauri Jaakonaho
Jaakko Rauramo
Raimo Taivalkoski

Markku Kangas
Juhani Riutta

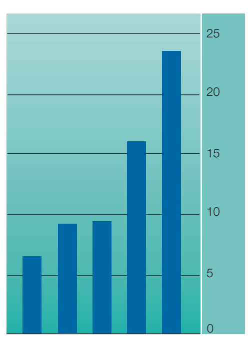
Consolidated Income Statement

(FIM millions)	**1996**		1995	
Net sales	**11 764**	**100 %**	8 574	100 %
Cost of sales	**–8 986**		–6 467	
Gross profit	**2 778**	**24 %**	2 107	25 %
Marketing and selling expenses	**–733**		–579	
Research and development expenses	**–404**		–306	
Administrative expenses	**–720**		–692	
Operating profit (1, 2, 3)	**921**	**8 %**	530	6 %
Financial income and expenses (4)	**115**		27	
Share of profits or losses of associated companies (5)	**20**		80	
Income after financial items	**1 056**	**9 %**	637	7 %
Extraordinary income and expenses (6)	**–36**		82	
Income before income taxes	**1 020**	**9 %**	719	8 %
Income taxes (7)	**–200**		–54	
Minority interests	**–14**		–9	
Net income	**806**	**7 %**	656	8 %

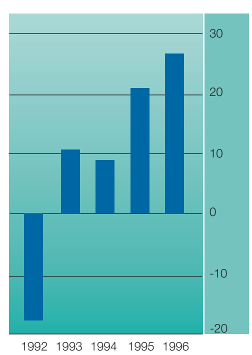
Operating Profit, FIM millions



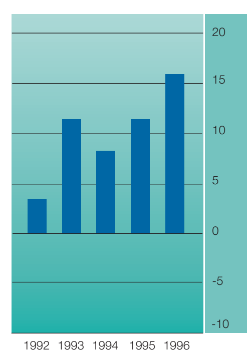
Return on Net Assets, %



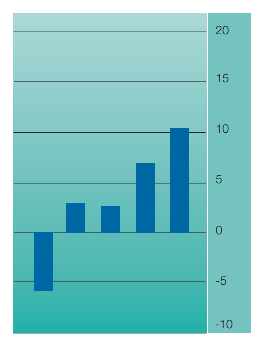
Return on Equity, %



Cash Flow per Share, FIM



Earnings per Share, FIM



Consolidated Balance Sheet

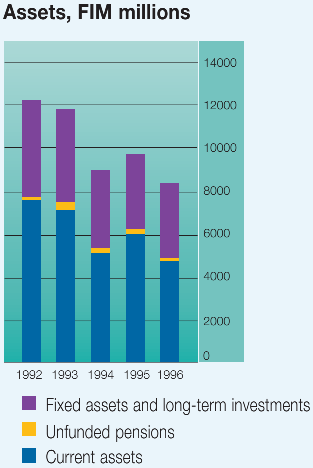
ASSETS

(FIM millions)	Dec 31, 1996		Dec 31, 1995	
FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets (8)				
Goodwill	**60**		77	
Other intangible assets	**120**		108	
	180		185	
Tangible fixed assets (8)				
Land and water areas	**225**		229	
Buildings	**729**		801	
Machinery and equipment	**1 029**		907	
Other tangible assets	**23**		35	
Assets under construction	**145**		153	
	2 151		2 125	
Advances paid for fixed assets	**7**		31	
Long-term investments				
Shareholdings and other securities (9)	**970**		896	
Loans receivable (20)	**10**		21	
Other long-term assets	**37**		34	
	1 017		951	
	3 355	**40 %**	3 292	34 %
UNFUNDED PENSIONS (10)	**149**	**2 %**	201	2 %
CURRENT ASSETS				
Inventories				
Materials and supplies	**302**		320	
Finished products	**86**		81	
Work in progress	**–**		1 545	
Advances paid for inventories	**–**		76	
	388		2 022	
Receivables (11, 20)				
Trade receivables, interest-bearing	**123**		35	
Trade receivables, non-interest-bearing	**1 526**		1 489	
Cost and earnings of projects under construction in excess of billings (12)	**735**			
Loans receivable	**44**		46	
Accrued income and prepaid expenses	**329**		428	
Other receivables	**51**		54	
	2 808		2 052	
Cash and short-term investments (13)	**1 602**		2 074	
	4 798	**58 %**	6 148	64 %
TOTAL	**8 302**	**100 %**	9 641	100 %

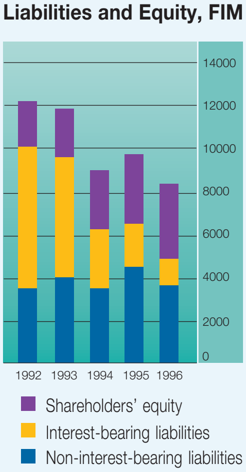
LIABILITIES AND SHAREHOLDERS' EQUITY

(FIM millions)	**Dec 31, 1996**		Dec 31, 1995	
SHAREHOLDERS' EQUITY (14)				
Share capital	**851**		851	
Restricted funds	**1 351**		1 351	
Cumulative translation adjustment	**–131**		–149	
Retained earnings	**370**		357	
Net income for the year	**806**		656	
	3 247	**40 %**	3 066	32 %
MINORITY INTEREST	**36**	**–**	28	–
LIABILITIES (15)				
Long-term debt				
Bonds	**520**		569	
Loans from financial institutions	**159**		130	
Pension loans	**124**		655	
Other long-term debt	**117**		107	
	920	**11 %**	1 461	15 %
Other long-term liabilities				
Deferred tax liability (16)	**57**		57	
Accrued expenses (10, 17)	**293**		395	
	350	**4 %**	452	5 %
Current liabilities				
Short-term portion of long-term debt (15)	**121**		314	
Other interest-bearing short-term liabilities	**249**		200	
Non-interest-bearing current liabilities				
Accounts payable	**791**		653	
Billings in excess of cost and earnings of projects under construction (12)	**631**			
Advances received	**–**		2 020	
Accrued expenses and prepaid income (18)	**1 868**		1 272	
Other current liabilities	**89**		175	
	3 379		4 120	
	3 749	**45 %**	4 634	48 %
	5 019		6 547	
TOTAL	**8 302**	**100 %**	9 641	100 %

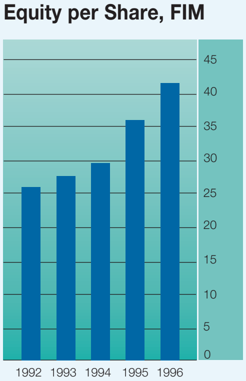
Assets, FIM millions



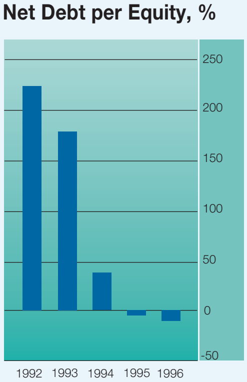
Liabilities and Equity, FIM millions



Equity per Share, FIM



Net Debt per Equity, %



Consolidated Statement of Cash Flow

(FIM millions)	**1996**	1995
Cash flows from operating activities:		
Net income	**806**	656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**431**	383
Gain on sale of property and equipment	**–1**	–39
(Gain) loss on securities	**–30**	–37
(Gain) loss on sale of subsidiaries	**–19**	–26
Foreign exchange (gains) losses	**2**	–44
Deferred income taxes	**–5**	–20
Share of profits or losses of associated companies	**–20**	–80
Dividends from associated companies	**32**	17
Other non-cash items	**17**	–5
Changes in assets and liabilities, net of effects of dispositions of businesses:		
Receivables	**–34**	–236
Inventories	**–1**	–512
Accounts payable	**122**	76
Billings in excess of cost and earnings of projects under construction	**–649**	
Accrued expenses and prepaid income	**565**	290
Other current liabilities	**43**	2
Advances received	**–**	745
Net cash provided by operating activities	**1 259**	1 170
Cash flows from investing activities:		
Cash proceeds from sale of property and equipment	**31**	95
Capital expenditures on property and equipment	**–621**	–423
Purchase of subsidiary, net of cash acquired	**–11**	–40
Proceeds from sale of subsidiaries and investments in associated companies, net of cash disposed	**51**	32
Cash received on note from sale of businesses	**–**	117
Net cash used by investing activities	**–550**	–219
Cash flows from financing activities:		
Redemption and cancellation of shares	**–494**	–
Dividends paid	**–149**	–43
Proceeds from issuance of debt	**83**	64
Principal payments on debt	**–647**	–780
Other	**6**	37
Net cash provided (used) by financing activities	**–1 201**	–722
Effect of exchange rate changes on cash and short-term investments	**20**	–15
Net increase (decrease) in cash and short-term investments	**–472**	214
Cash and short-term investments at beginning of year	**2 074**	1 860
Cash and short-term investments at end of year	**1 602**	2 074

Supplemental cash flow information:		
Acquisitions:		
Assets acquired	**48**	44
Liabilities assumed	**–37**	–5
Cash paid, net of cash acquired	**11**	39
Disposals:		
Non-cash assets disposed of	**328**	32
Less liabilities disposed of	**–296**	–26
Net non-cash assets sold	**32**	6
Gain on sale	**19**	26
Cash received from sale, net of cash disposed	**51**	32

Parent Company Income Statement

(FIM millions)	1996		1995	
Net sales	**6 998**	**100 %**	1 509	100 %
Cost of sales	**–5 508**		–1 189	
Gross profit	**1 490**	**21 %**	320	21 %
Marketing and selling expenses	**–277**		–69	
Research and development expenses	**–235**		–65	
Administrative expenses	**–309**		–177	
Operating profit (1, 2, 3)	**669**	**10 %**	9	1 %
Financial income and expenses (4)	**7**		60	
Income after financial items	**676**	**10 %**	69	5 %
Group internal contributions	**–9**		–	
Extraordinary income and expenses (6)	**–97**		83	
Income before income taxes	**570**	**8 %**	152	10 %
Allocations to untaxed reserves	**–**		1	
Income taxes (7)	**–127**		–40	
Net income	**443**	**6 %**	113	7 %

Parent Company Statement of Cash Flow

(FIM millions)	1996	1995
Cash flows from operating activities:		
Net income	**443**	113
Adjustments to reconcile net income to net cash provided by operating activities	**322**	–14
Changes in assets and liabilities, net of effects of dispositions of businesses	**–292**	283
Net cash provided by operating activities	**473**	382
Cash flows from investing activities	**–209**	111
Cash flows from financing activities	**–847**	–181
Net increase (decrease) in cash and short-term investments	**–583**	312
Cash and short-term investments at beginning of year	**1 733**	1 421
Cash and short-term investments at end of year	**1 150**	1 733

The figures of the Parent Company for 1996 and 1995 are not comparable because the operating units of the former subsidiary Valmet Paper Machinery Inc. have belonged to the Parent Company since August 31, 1995 and those of the former subsidiary Valmet-Karhula Inc. have belonged to the Parent Company since January 2, 1996.

Parent Company Balance Sheet

ASSETS

(FIM millions)	Dec 31, 1996		Dec 31, 1995	
FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets (8)	**82**		70	
Tangible fixed assets (8)	**1 012**		850	
Advances paid for fixed assets	**5**		31	
Long-term investments				
Shareholdings and other securities (9)	**2 060**		2 347	
Loans receivable (20)	**321**		295	
	2 381		2 642	
	3 480	**55 %**	3593	46 %
UNFUNDED PENSIONS (10)	**149**	**2 %**	201	3 %
CURRENT ASSETS				
Inventories	**147**		1 130	
Receivables (11, 20)	**1 433**		1 049	
Cash and short-term investments (13)	**1 150**		1 733	
	2 730	**43 %**	3 912	51 %
TOTAL	**6 359**	**100 %**	7 706	100 %

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY (14)				
Share capital	**851**		851	
Legal reserve	**1 281**		1 281	
Revaluation reserve	**200**		200	
Retained earnings	**540**		1 070	
Net income for the year	**443**		113	
	3 315	**52 %**	3 515	46 %
UNTAXED RESERVES	**5**	**–**	5	–
LIABILITIES (15)				
Long-term debt	**562**	**9 %**	948	12 %
Other long-term liabilities				
Accrued expenses (10, 17)	**216**	**3 %**	356	5 %
Current liabilities				
Short-term portion of long-term debt (15)	**9**		129	
Other interest-bearing short-term liabilities	**423**		231	
Non-interest-bearing current liabilities (18)	**1 829**		2 522	
	2 261	**36 %**	2 882	37 %
	3 039		4 186	
TOTAL	**6 359**	**100 %**	7 706	100 %

The figures of the Parent Company for 1996 and 1995 are not comparable because the operating units of the former subsidiary Valmet Paper Machinery Inc. have belonged to the Parent Company since August 31, 1995 and those of the former subsidiary Valmet-Karhula Inc. have belonged to the Parent Company since January 2, 1996.

Notes to the Financial Statements

1. PERSONNEL COSTS

The information regarding personnel costs is as follows:

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Wages and salaries	**2 308**	2 081	**1 024**	270
Pension costs	**408**	334	**246**	95
Other indirect employee costs	**448**	436	**215**	120
Total	**3 164**	2 851	**1 485**	485

Other information:				
Salaries to the members of the Supervisory Board, the Boards of Directors and Chief Executive Officers of Group Companies	**33**	30	**6**	5
Bonuses to the members of the Boards of Directors and Chief Executive Officers	**4**	2	**2**	1

Members of the Board of Directors and Chief Executive Officers of the Parent Company are entitled to retire at the age of 60.

2. DEPRECIATION

Depreciation expense is allocated in the Income Statements as follows:

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Cost of sales	**234**	263	**91**	27
Marketing and selling	**16**	13	**4**	1
Research and development	**59**	36	**50**	9
Administrative	**49**	39	**29**	15
Goodwill	**26**	32	**–**	–
Total	**384**	383	**174**	52
Depreciation expense consists of the following components:				
Consolidation goodwill	**26**	31	**–**	–
Other goodwill	**1**	1	**1**	–
Other intangible assets	**18**	18	**10**	3
Buildings	**48**	49	**28**	11
Machinery and equipment	**282**	274	**127**	35
Other tangible assets	**9**	10	**8**	3
Total	**384**	383	**174**	52
Write-offs are deducted from the carrying values of fixed assets in addition to depreciation expense as follows:				
Write-off of buildings	**43**	–	**–**	–
Write-off of machinery and equipment	**9**	–	**–**	–
Write-offs of shareholdings	**–**		**190**	5
Total write-off of fixed assets	**52**	–	**190**	5

3. REVENUE RECOGNITION AND NET SALES

Commencing on January 1, 1996, revenue from long-term delivery contracts is recognized using the percentage of completion method. The financial statements for 1995 have not been restated for this change.

In the following table the Consolidated Income Statements for 1996 and 1995 have been made comparable with each other by deducting from the 1996 Income Statement the Net Sales and respective project costs recognized by the percentage of completion method regarding the projects which were uncompleted at the end of 1996.

	Group	
(FIM millions)	**1996**	1995
Net sales	**10 478**	8 574
Cost of sales	**–7 892**	–6 467
Gross profit	**2 586**	2 107
Marketing and sales expenses	**–733**	–579
Research and development expenses	**–404**	–306
Administrative expenses	**–720**	–692
Operating profit	**729**	530

Net sales coming from the projects which were uncompleted at the year end were FIM 1,286 million in 1996. In 1995 all the net sales were recognized by using the completed contract method of revenue recognition.

4. FINANCIAL INCOME AND EXPENSES

The following information provides a summary of financial income and expenses:

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Financial income:				
Dividends received	**14**	8	**64**	17
Interest income	**168**	211	**147**	176
Other financial income	**5**	7	**–**	3
Gains and losses from foreign exchange	**64**	10	**60**	–
Tax credit regarding dividends	**5**	3	**21**	6
	256	239	**292**	202
Financial expenses:				
Interest expenses	**–121**	–185	**–85**	–124
Other financial expenses	**–20**	–27	**–10**	–8
Gains and losses from foreign exchange	**–**	–	**–**	–5
Value adjustments of shares	**–**	–	**–190**	–5
	–141	–212	**–285**	–142
	115	27	**7**	60

	Group	
(FIM millions)	**1996**	1995
Unrealized gains of short-term investments included in Group's interest income are	**30**	24

5. INFORMATION ON ASSOCIATED COMPANIES

Information regarding the company's investments in associated companies is described below:
A detailed specification of Valmet's long-term investments in associated companies is contained in Note 9.

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Dividends received	**32**	17	**32**	17
Share of profits or losses	**20**	80	**–**	–
Equity value of investments in associated companies	**482**	497	**390**	391

6. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses, including transactions considered outside the normal course of business, resulted from the following:

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Extraordinary income:				
Gains from the sale of land and water areas and buildings	**3**	39	**3**	50
Net gains from the sale of shares and businesses (*)	**18**	26	**–**	16
Effect of changes in accounting principles (**)	**53**	–	**–**	–
Compensation from litigation	**–**	20	**–**	20
Other income	**8**	28	**–**	5
Merger gain	**–**	–	**10**	7
	82	113	**13**	98
Extraordinary expenses:				
Effect of changes in accounting principles	**–**	–14	**–**	–
Compensation to bankruptcy estate of Wärtsilä Marine Industries Inc.	**–110**	–	**–110**	–
Settlements and other nonrecurring costs	**–8**	–17	**–**	–15
	–118	–31	**–110**	–15
	–36	82	**–97**	83

(*) In 1996, the Group sold 50.1 % of its shares in Valmet Aviation Industries to the Finnish State and recognized a gain of FIM 19 million which is recorded as a component of extraordinary income.

(**) The percentage of completion method of revenue recognition was applied in the Group accounting in 1996. The cumulative effect of this change in accounting principle at January 1, 1996 was an income of FIM 53 million and is classified as a component of extraordinary income and expenses, which represents income on contracts in process at December 31, 1995 that would have been recorded in 1995 under the percentage of completion method.

7. INCOME TAXES

Income tax expense (benefit) consists of the following:

	Group	
(FIM millions)	**1996**	1995
Total current income tax expense (benefit)	**205**	74
Total deferred income tax expense (benefit)	**–5**	–20
Total income taxes	**200**	54

The principal reasons for the difference between the “expected” income tax expense (benefit), computed by applying the statutory Finnish tax rate of 28 percent in 1996 and 25 percent in 1995 to income (loss) before income taxes, and the actual income tax expense (benefit) are as follows:

“Expected” income tax expense (benefit)	**286**	180
Taxes for prior years	**–14**	11
Effect of change in Finnish tax rates	**3**	6
Temporary differences for which no deferred tax had been provided	**–21**	8
Losses not currently utilized	**41**	5
Utilization of tax loss carryforwards for which no deferred tax had been provided	**–33**	–147
Nontaxable income	**–11**	–24
Expenses not deductible	**18**	20
Differences in foreign tax rates	**–5**	3
Deduction for write-down of investment in subsidiaries	**–57**	–7
Credit on taxable dividends received	**–**	–1
Other	**–7**	–
Income taxes	**200**	54

8. FIXED ASSETS

Fixed assets of businesses sold during the year are not included in the fixed asset balances on January 1. Fixed assets of businesses acquired during the year are included in the fixed asset balances on January 1. Exchange rate differences arising from consolidation are included in the beginning balances in this specification. Write-offs are value adjustments made during a fiscal year. In the coming years they will be deducted from acquisition cost.

	Group		Parent Company	
(FIM millions)	**1996**	1995	**1996**	1995
Consolidated goodwill:				
Acquisition cost, beginning of year	**267**	265	**–**	–
Additions	**11**	39	**–**	–
Disposals	**–**	–18	**–**	–
Accumulated depreciation	**–223**	–216	**–**	–
Book value, end of year	**55**	70	**–**	–
Other goodwill:				
Acquisition cost, beginning of year	**7**	6	**10**	–
Additions	**–**	3	**–**	10
Disposals	**–**	–	**–**	–
Accumulated depreciation	**–2**	–2	**–8**	–7
Book value, end of year	**5**	7	**2**	3
Other intangible assets:				
Acquisition cost, beginning of year	**180**	199	**94**	–
Additions	**37**	24	**38**	94
Disposals	**–3**	–1	**–14**	–
Accumulated depreciation	**–94**	–114	**–37**	–27
Book value, end of year	**120**	108	**81**	67
Land and water areas:				
Acquisition cost, beginning of year	**222**	225	**124**	20
Additions	**1**	6	**8**	105
Disposals	**2**	–2	**–2**	–1
Book value, end of year	**225**	229	**130**	124
Buildings:				
Acquisition cost, beginning of year	**1 182**	1 241	**510**	114
Additions	**73**	38	**125**	413
Disposals	**–**	–15	**–34**	–16
Accumulated depreciation	**–483**	–463	**–272**	–244
Write-offs this year	**–43**	–	**–**	–
Book value, end of year	**729**	801	**329**	267
Machinery and equipment:				
Acquisition cost, beginning of year	**2 847**	2 806	**1 223**	19
Additions	**475**	215	**392**	1 269
Disposals	**–20**	–21	**–136**	–53
Accumulated depreciation	**–2 264**	–2 093	**–1 031**	–916
Write-offs this year	**–9**	–	**–**	–
Book value, end of year	**1 029**	907	**448**	319
Other tangible assets:				
Acquisition cost, beginning of year	**127**	135	**80**	1
Additions	**5**	4	**9**	79
Disposals	**–3**	–1	**–7**	–
Accumulated depreciation	**–106**	–103	**–63**	–55
Book value, end of year	**23**	35	**19**	25
Assets in construction:				
Acquisition cost, beginning of year	**154**	60	**114**	–
Additions	**265**	184	**193**	170
Disposals and transfers	**–274**	–91	**–221**	–56
Book value, end of year	**145**	153	**86**	114

(FIM millions)	Group 1996	1995	Parent Company 1996	1995
Property insurance values of tangible fixed assets	**7 236**	7 271	**3 551**	2 971
Taxation values				
Land and water areas	**108**	105	**56**	47
Buildings	**686**	786	**332**	330
Shareholdings, subsidiaries	**–**	–	**1 189**	1 532
Shareholdings, associated companies	**326**	303	**325**	302
Shareholdings, other companies	**307**	246	**58**	60
	1 427	1 440	**1 960**	2 271

9. SHAREHOLDINGS

(The staggering of the names shows the chain of ownership)	Country	Number of shares	%	Nominal value		Parent Company ownership Book value FIM millions	Ownership via subsid. Book value FIM millions
SUBSIDIARIES, DEC 31, 1996							
Valmet-Boustead Pty. Ltd.	Australia	4 000 000	100	AUD	1	21	
Valmet (ANZ) Pty Ltd	Australia	19 999	100	AUD	1	–	
Valmet Paper Machinery (Holdings) Inc.	Canada		100			82	
Valmet Canada Inc.	Canada		100			–	
Valmet Chile Limitada	Chile		100			–	–
Finbow Oy	Finland	10 200	60	FIM	50	3	
Jylhäraisio Oy	Finland	204	51	FIM	10 000	13	
Jylhäraisio GmbH	Germany		100				–
Oulun Kumitehdas Oy	Finland	496	55.1	FIM	1 000	3	
Oulun Norrcon Oy	Finland	8 500	100	FIM	100		
Comroll Oy	Finland	30	100	FIM	500		
UHAB Industrigummering AB	Sweden	4 860	81	SEK	100		
Valmet Dura Inc.	Finland	1 200	60	FIM	10 000	12	
Roval S.A.R.L.	France	10 000	100	FRF	1 000	7	
Valmet SARL	France	98	98	FRF	500	–	
Valmet GmbH	Germany		100			17	
Valmet Ges.m.b.H.	Austria		100				–
Valmet Service GmbH	Germany		100				7
Valmet Vertrieb GmbH	Germany		100				1
Valmet-Como S.p.A.	Italy	10 000	100	ITL	1 000 000	4	
Valmet-Gorizia S.p.A.	Italy	146 300	100	ITL	100 000	48	
Rotomec-Costruzioni Meccaniche Elettriche S.p.A.	Italy	7 000 000	100	ITL	1 000	64	34
MAF S.p.A.	Italy	100 000	100	ITL	10 000		5
Rotomec Automation S.r.l.	Italy	1 500 000	100	ITL	1 000		5
Rotomec Frabelux S.A.R.L.	France	850	85	FRF	100		–
Rotomec Service GmbH	Germany	900	90	DEM	100		–
Rotomec Iberica S.A.	Spain	2 480	80	ESP	1 000		–
Rotomec America Inc.	USA	2 020	100	USD	100		–
Valmet-Ameriflex Inc.	USA		52				2
Valmet Japan Co.. Ltd.	Japan	100	100	JPY	100 000	–	
Valmet Korea Inc.	Korea	10 000	100	WON	10 000	1	
Valmet (SEA) Pte Ltd	Singapore	820 000	100	SGD	1	1	1
Valmet Technology (Thailand) Co. Ltd.	Thailand	999 993	100	THB	100	18	
Valmet (UK) Limited	UK	9 999	100	GBP	1	1	
Valmet Automation Inc.	Finland	3 000 000	100	FIM	60	230	
Valmet Automation (Australasia) Pty. Ltd.	Australia	502	100	AUD	1		2
Valmet Automation Ges.m.b.H.	Austria		100				–
Valmet Automation (Canada) Ltd.	Canada	11 186 391	100				112
CPS Elektronics Inc.	Finland	3 000	100	FIM	1 000		3
Sensodec Oy	Finland	800	100	FIM	1 000		8
Valmet Automation Kajaani Ltd.	Finland	1 500	100	FIM	10 000		21
Valmet Automation Projects Ltd.	Finland	3 000	100	FIM	1 000		3
Valmet Fisher-Rosemount Inc.	Finland	102	51	FIM	10 000		1

(Shareholdings continued)

(The staggering of the names shows the chain of ownership)	Country	Number of shares	%	Nominal value		Parent Company ownership Book value FIM millions	Ownership via subsid. Book value FIM millions
Valmet Automation France S.A.	France	19 816	99.1	FRF	1 000	–	–
Valmet Automation GmbH	Germany	3 500	100	DEM	1 000		10
Valmet Automation K.K.	Japan	300	100	JPY	50 000		–
Valmet Automation AS	Norway	50	100	NOK	1 000		–
Valmet Automation B.V.	Netherlands	1 700	100	NLG	100		–
Valmet Automation Ltd.	UK	200 000	100	GBP	1		1
Valmet Automotive Inc.	Finland	63 200	100	FIM	1 000	363	
Euromotive Inc.	Finland	50	100	FIM	100 000		5
Valmet Power Transmission Inc.	Finland	6 000	100	FIM	5 000	49	
Valmet Hydraulics Oy	Finland	15 000	100	FIM	1 000		25
Statemet Insurance Company Limited	Guernsey	249 993	100	USD	1	1	
Valfin Ltd.	Finland	255	100	FIM	200 000	51	
Valmet Svenska AB	Sweden	800 000	100	SEK	100	107	
Valmet Automation (Sverige) AB	Sweden	46 000	100	SEK	100		4
Valmet-Karlstad AB	Sweden	70 000	100	SEK	1 000		46
Valmet Skandinavien AB	Sweden	200	100	SEK	1 000		–
Valmet NV Inc.	USA	515	100	USD	1	379	–
Valmet Inc.	USA		100				261
Valmet Automation (USA) Inc.	USA		100				77
Valfin Incorporated	USA		100				118
						1 475	753

SHAREHOLDINGS AND OTHER SECURITIES OF THE GROUP CONSIST OF THE FOLLOWING:

	Dec 31, 1996			Dec 31, 1995		
	Shares	% Held	Equity value FIM mill.	Shares	% Held	Equity value FIM mill.
Investment in associated companies:						
Oy Scan-Auto Ab	350 000	50.0 %	133	350 000	50.0 %	158
Sako Ltd.	40 000	50.0 %	42	40 000	50.0 %	47
Oy Sisu Ab	9 397 106	25.4 %	247	9 397 106	25.4 %	247
Other			60			45
Total investment in associated companies			482			497

	Dec 31, 1996				Dec 31, 1995			
	Shares	% Held	Equity value FIM mill.	Fair value FIM mill.	Shares	% Held	Equity value FIM mill.	Fair value FIM mill.
Investment in other securities:								
UPM-Kymmene Corporation	2 784 396	1.0 %	249	269	–	–	249	228
Tamfelt Corp.	181 575	2.8 %	26	22	181 575	2.8 %	26	13
Merita Ltd.	440 000	0.1 %	7	7	440 000	0.1 %	7	5
Sampo Insurance Company Limited	89 102	0.6 %	7	32	89 093	0.6 %	7	21
Sato-Yhtymä Oy	86 760	4.7 %	21	21				
Finavitec Oy	3 996	49.9 %	71	71				
Other			107	111			110	111
Total investment in other securities			488	534			399	378
Total shareholdings and other securities			970	1 016			896	875

Revaluations included in Group's investments in associated companies were FIM 70 million at December 31, 1996 and 1995.

10. UNFUNDED PENSIONS

Unfunded pension liability refers to that part of total pension liability which has not yet been accrued.

(FIM millions)	Group, Dec 31, 1996	1995	Parent Company, Dec 31, 1996	1995
Voluntary additional pension liability to Valmet's Pension Fund	**60**	76	**60**	76
Parent company's additional direct pension liability	**89**	125	**89**	125
	149	201	**149**	201

The unfunded pension liabilities are included in assets and long term accrued expenses in the Balance Sheet. The statutory pension liability was transferred from Valmet's Pension Fund to an insurance company at January 1, 1992. Valmet's Pension Fund has been closed to new employees since 1987. Due to the closing of the Pension Fund the unfunded pension liability will decrease in the future and the remaining part of the liability will be charged to income by the end of the year 2000. In 1996 FIM 30 million of the Parent Company's additional direct pension liability was transferred to the Valmet Pension Fund and it was wholly funded.

11. RECEIVABLES

The information regarding Valmet's receivables is as follows:

(FIM millions)	Group, Dec 31, 1996	1995	Parent Company, Dec 31, 1996	1995
Receivables due later than one year:				
Trade receivables, interest-bearing	**76**	15	**–**	8
Trade receivables, non-interest-bearing	**24**	40	**34**	25
Accrued income and prepaid expenses	**17**	59	**–**	44
Other receivables	**9**	3	**–**	–
	126	117	**34**	77
Interest-bearing receivables, total	**194**	97	**30**	42
The allowance for doubtful accounts	**36**	14	**1**	–

12. COST AND EARNINGS OF PROJECTS UNDER CONSTRUCTION IN EXCESS OF BILLINGS/ BILLINGS IN EXCESS OF COST AND EARNINGS OF PROJECTS UNDER CONSTRUCTION

Information on balance sheet items of uncompleted projects at December 31, 1996 (Group):

(FIM millions)	Cost and earnings of uncompleted projects	Billings of projects	Net
Projects, where Costs and earnings exceed Billings	1 788	1 053	735
Projects, where Billings exceed Costs and earnings	694	1 325	–631

13. CASH AND SHORT-TERM INVESTMENTS

(FIM millions)	Group, Dec 31, 1996	1995	Parent Company, Dec 31, 1996	1995
Cash	**301**	286	**28**	24
Short-term investments	**1 301**	1 788	**1 122**	1 709
	1 602	2 074	**1 150**	1 733

Short-term investments consist of time deposits, commercial papers, certificates of deposit, treasury bills, bonds and other securities.

14. SHAREHOLDERS' EQUITY

Changes in consolidated shareholders' equity are as follows:

(FIM millions)	Share capital	Other shareholders' Equity: Restricted funds	Other shareholders' Equity: Cumulative translation adjustment	Other shareholders' Equity: Retained earnings	Total shareholders' equity
Balance at Jan 1, 1994	711	1 044	–118	39	1 676
Share issue	140	–	–	–	140
Premium on share issue	–	505	–	–	505
Changes in Group structure [1]	–	–198	105	93	–
Change in untaxed reserves, net of deferred taxes	–	–	–	152	152
Share of associated companies' gains and losses from previous years	–	–	–	–40	–40
Net income	–	–	–	173	173
Translation differences	–	–	–100	–	–100
Balance at Dec 31, 1994	851	1 351	–113	417	2 506
Net income	–	–	–	656	656
Dividends	–	–	–	–43	–43
Share of associated companies' gains and losses from previous years	–	–	–	–17	–17
Translation differences	–	–	–36	–	–36
Balance at Dec 31. 1995	851	1 351	–149	1 013	3 066
Net income	–	–	–	806	806
Dividends	–	–	–	–149	–149
Redemption and cancellation of shares	–	–	–	–494	–494
Translation differences	–	–	18	–	18
Balance at Dec 31, 1996	851	1 351	–131	1 176	3 247

[1] Changes in Group structure relate to a reallocation among the Group's other shareholders' equity accounts due to the sale of Valmet Tractors and Transmec to Sisu.

Unrestricted shareholders' equity includes untaxed reserves less deferred taxes FIM 21 million at December 31, 1996 and FIM 25 million at December 31, 1995. At December 31, 1996, FIM 8 million of the cumulative translation adjustment was considered as restricted funds and FIM –139 million as unrestricted funds. According to the Finnish Companies Act, free distributable funds of the Group were FIM 1,016 million at December 31, 1996 and FIM 840 million at December 31, 1995. Dividends will be declared and paid in Finnish markka.

Changes in the parent company's shareholders' equity are as follows:

(FIM millions)	Share capital	Other shareholders' Equity: Restricted funds	Other shareholders' Equity: Retained earnings	Total shareholders' equity
Balance at Jan 1, 1995	851	1 481	1 113	3 445
Net income			113	113
Dividends			–43	–43
Balance at Dec 31, 1995	851	1 481	1 183	3 515
Net income			443	443
Dividends			–149	–149
Redemption and cancellation of shares			–494	–494
Balance at Dec 31, 1996	851	1 481	983	3 315

Unrestricted equity of Parent Company at December 31, 1996 was FIM 983 million and FIM 1,183 million at December 31, 1995.

15. LONG-TERM DEBT

Long-term debt of Valmet Group consists of the following:

	Group					
	Dec 31, 1996			Dec 31, 1995		
(FIM millions)	Total	Short-term portion	Long-term debt	Total	Short-term portion	Long-term debt
Bonds	521	1	520	576	7	569
Loans from financial institutions	258	99	159	355	225	130
Pension loans	134	10	124	704	49	655
Other long-term loans	128	11	117	140	33	107
Total	1 041	121	920	1 775	314	1 461

Bonds consist primarily of FIM 500 million of bonds that bear interest at a fixed rate of 10 percent. The bonds mature between 1998 and 2002. A portion of these bonds have been converted to U.S. dollars and to different rates of interest through the use of currency and interest rate swaps. Loans from financial institutions consist of international bank borrowings with varying maturities and either fixed or floating interest rate.

The Group's loans from financial institutions consist of the following:

(FIM millions)	Group, Dec 31, 1996	1995
– Due in 1998; U. S. dollar denominated, payable at maturity; Fixed interest rate of 9,88 %	**37**	35
– Due in 1996; FIM denominated and swapped to U.S. dollar through a currency swap, payable at maturity; Fixed interest rate of 8.49 %		75
– Due in 1997; U. S. dollar denominated, payable at maturity; Variable interest rate based on Libor plus margin (6.02 % at December 31, 1996)	**23**	22
– Other bank loans denominated in various currencies such as USD, FIM, ITL, YEN; interest rates vary from 1.31 % to 12.95 %.	**198**	223
Total	**258**	355

For substantially all of their bank debt, the Group does not have any financial covenants.

"Pension loans", as permitted in Finland, consist mainly of borrowings from insurance companies of a portion of amounts contributed for pensions during the year at specified interest rates. Principal payments for such loans are payable annually based on 7 percent of the outstanding balance on the anniversary date of the loan. The Group may elect to borrow up to 55 percent of the total pension premiums for the year. The interest rate on such loans, which is regulated by the Finnish government, was 6.5 percent from January 1, 1995 through December 31, 1995 and 6.0 percent from January 1, 1996 through December 31, 1996. From January 1, 1997 the rate is 5.5 percent.

Other long-term loans consist principally of government loans and loans from governmental agencies (e.g., for research and development purposes or for regional development support) at interest rates ranging from 1.50 percent to 12.19 percent at December 31, 1995 and 1.00 percent to 9.92 percent at December 31, 1996.

As of December 31, 1996 the Group had FIM 371 million in long-term committed borrowing facilities that were unused and FIM 621 million in other unused credit facilities and other similar lines of credit.

Long-term debt of Valmet Group at December 31, 1996 will be payable as follows:

(FIM millions)	Bonds	Loans from financial institutions	Pension loans	Other long-term loans	Total
1997	1	99	10	11	121
1998	101	98	9	19	227
1999	101	34	8	19	162
2000	101	21	8	14	144
2001	101	4	7	12	124
2002 and later	116	2	92	53	263
Total	521	258	134	128	1 041

Long-term debt of Parent Company consists of the following:

	Parent Company					
	Dec 31, 1996			Dec 31, 1995		
(FIM millions)	Total	Short-term portion	Long-term debt	Total	Short-term portion	Long-term debt
Bonds	514	–	514	545	5	540
Loans from financial institutions	9	3	6	89	78	11
Pension loans	5	–	5	390	27	363
Other long-term loans	43	6	37	53	19	34
Total	571	9	562	1 077	129	948

Long-term debt of Parent Company at December 31, 1996 will be payable as follows:

(FIM millions)	Bonds	Loans from financial institutions	Pension loans	Other long-term loans	Total
1997	–	3	–	6	9
1998	100	3	1	6	110
1999	100	1	1	11	113
2000	100	1	–	9	110
2001	100	1	–	6	107
2002 and later	114	–	3	5	122
Total	514	9	5	43	571

16. DEFERRED INCOME TAXES

The net deferred tax liability of the Group consists of the following:

(FIM millions)	Group, Dec 31, 1996	1995
Deferred tax liabilities:		
Property and equipment	**66**	69
Untaxed reserves	**44**	15
Other	**4**	23
Total deferred tax liabilities	**114**	107
Deferred tax assets:		
Tax loss carryforwards	**318**	327
Property and equipment	**94**	117
Other	**103**	85
Less tax assets not recognized	**–458**	–479
Net deferred tax assets	**57**	50
Net deferred tax liabilities	**57**	57

Deferred taxes have not been provided on the unremitted earnings of subsidiaries and associated companies because such earnings are intended to be permanently reinvested or can be recovered in a tax-free manner and, in the case of associated companies, are not material.

Tax regulations in Finland and certain other countries permit tax deductions for allocations to special reserves with such amounts being accumulated in untaxed reserve accounts. In the Consolidated Balance Sheets, untaxed reserves in Group companies are allocated between shareholders' equity and deferred tax liabilities.

The Group's tax loss carryforwards can be approximated as follows:

(FIM millions)	Group 1996	1995
Finland	**–**	–
Rest of world	**861**	931

Tax loss carryforwards aggregating FIM 376 million at December 31, 1996 have no expiration date. Of the remaining tax loss carryforward, FIM 232 million arises in Italy and expires during the years 1997 to 2001, FIM 45 million is from Canada and expires during the period 1997 to 2002 and FIM 208 million relates to the U.S. and expires during the period 1999 to 2007.

17. ACCRUED EXPENSES, LONG-TERM

	Group, Dec 31,		Parent Company, Dec 31,	
(FIM millions)	**1996**	1995	**1996**	1995
Voluntary additional pension liabilities (Note 10)	**154**	204	**149**	201
Provisions for other claims and compensations	**60**	64	**56**	52
Provision for compensation claims by Wärtsilä Marine (Note 23)	**–**	80	**–**	80
Other long-term provisions and accruals	**79**	47	**11**	23
	293	395	**216**	356

18. ACCRUED EXPENSES AND PREPAID INCOME, CURRENT LIABILITIES

A detailed specification of accrued expenses and prepaid income is as follows:

	Group, Dec 31,		Parent Company, Dec 31,	
(FIM millions)	**1996**	1995	**1996**	1995
Personnel costs	**440**	361	**235**	183
Interest expenses	**55**	78	**25**	34
Income taxes	**148**	121	**38**	66
Accrued expenses related to long-term contracts	**722**	382	**346**	176
Provisions for warranty claims	**299**	125	**189**	71
Other accruals	**131**	123	**59**	55
Provisions for losses on long-term contracts	**21**	32	**11**	30
Provisions related to reorganization of production operations	**25**	37	**1**	3
Other provisions	**27**	13	**12**	–
	1 868	1 272	**916**	618

19. ASSETS PLEDGED AND CONTINGENT LIABILITIES

(FIM millions)	Group, Dec 31, 1996	1995	Parent Company, Dec 31, 1996	1995
Collateral on corporate debt				
Mortgages	**87**	261	**2**	113
Pledged receivables	**–**	11	**–**	–
Total	**87**	272	**2**	113
Other pledges and contingencies				
Mortgages	**35**	–	**–**	–
Pledged shares	**4**	4	**–**	–
Other pledged assets	**8**	3	**–**	–
Guarantees on behalf of subsidiaries	**–**	–	**909**	1 546
Guarantees on behalf of associated companies	**14**	9	**14**	9
Other guarantees	**23**	99	**20**	25
Total	**84**	115	**944**	1 580
Leasing-repurchase commitments	**30**	41	**29**	40

The mortgage amount has been calculated as the amount of the corresponding loans. The nominal value of the mortgages is FIM 61 million larger than the amount of the corresponding loans. The pledged shares amount has been calculated as the amount of the corresponding loans and other commitments.

20. RELATED PARTY INFORMATION

Information regarding transactions with related parties is as follows:

(FIM millions)	Group 1996	1995	Parent Company 1996	1995
Associated companies:				
Receivables – current				
Trade receivables, non-interest-bearing	**–**	1	**–**	–
Loan receivables	**15**	11	**–**	–
Accrued income and prepaid expenses	**2**	–	**2**	–
	17	12	**2**	–
Sales to associated companies	**62**	36	**57**	–
Gain on sale of certain land and buildings to Sisu	**–**	37	**–**	50
Purchases from associated companies	**–**	25	**–**	–
Members of the Supervisory Board, of the Board of Directors and Chief Executive Officers:				
Loans receivable – long-term	**1**	1	**1**	1
Subsidiaries (regarding Parent Company only):				
Loans receivable – long-term	**–**	–	**320**	286
Receivables – current				
Trade receivables, non-interest bearing	**–**	–	**189**	186
Loans receivable	**–**	–	**95**	49
Accrued income and prepaid expenses	**–**	–	**87**	24
	–	–	**371**	259
Current liabilities				
Other interest-bearing short-term debt	**–**	–	**–**	66
Accounts payable	**–**	–	**132**	184
Advances received			**–**	214
Accrued expenses and prepaid income	**–**	–	**26**	8
Cash pool balance	**–**	–	**365**	89
	–	–	**523**	561
Financial income and expenses:	**–**	–		
Interest income	**–**	–	**21**	23
Interest expenses	**–**	–	**–16**	–62
	–	–	**5**	–39

21. OPERATING LEASE COMMITMENTS

The minimum lease payments under non-cancellable, operating lease agreements:

(FIM millions)	Group
1997	83
1998	85
1999	47
2000	28
2001	11
2002 and later	28
Total	282

Rental expense for operating leases was FIM 111 million in 1996 and FIM 97 million in 1995. Amounts under finance leases are not significant.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A substantial portion of the Group's sales are derived from customers located outside of Finland. In addition, a portion of the Company's shareholders' equity is represented by the net assets of foreign subsidiaries. The Group's selling, marketing and finance operations are conducted in several countries outside of Finland and purchases of raw material and component parts are made in currencies other than FIM. Because of the high proportion of international activity, the Group's income is exposed to exchange rate fluctuations to a significant extent. Risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have a negative effect on the value of the Group's commercial cash flows in various currencies, and a "translation risk", that is, the risk of adverse currency fluctuations in the translation of foreign operations and foreign assets and liabilities into FIM for the Group's consolidated financial statements.

Notional Amounts and Credit Exposure

The notional amounts of off-balance-sheet financial instruments presented in this Note represent face or contractual amounts and thus are not a measure of the exposure of the Group through its use of such financial instruments. The actual amounts exchanged are calculated on the basis of the notional amounts and the other terms of the financial instruments which relate to interest rates or exchange rates.

The Company is exposed to credit related losses in the event that counterparties to the off-balance-sheet financial instruments do not perform according to the terms of the contract. In the opinion of management, the counterparties to the financial instruments are creditworthy parties and the Group does not expect any significant loss to result from non-performance. The Group, in the normal course of business, does not demand collateral. The credit exposure of interest rate and foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the end of each period.

Foreign Currency Risk Management

At December 31, 1996 and 1995, net assets of foreign subsidiaries denominated in currencies other than FIM amounted to FIM 529 million and FIM 401 million, respectively. The Group does not use financial instruments to hedge the translation risk arising from the net assets of foreign subsidiaries.

In order to reduce the foreign currency transaction risk of adverse effects on the net payment flow in foreign currencies, firmly committed future cash flows are hedged with forward exchange contracts. The Group generally hedges its future net cash flows on the basis of firm orders in its order backlog over a period typically not exceeding two years. Gains and losses on forward exchange contracts designed to protect such future transactions are deferred and reported in the Consolidated Income Statements in the period intended to be covered by the hedged transactions.

The table below summarizes in FIM equivalent by major currency the contractual amounts of forward exchange contracts used primarily to hedge future firmly committed cash flows at December 31, 1996 and 1995. The "Buy" amounts represent the Finnish markka equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the FIM equivalent of commitments to sell foreign currencies.

	Group			
	Dec 31, 1996		Dec 31, 1995	
(FIM millions)	**Buy**	**Sell**	Buy	Sell
United States dollar	**8**	**1 642**		1 309
German Deutsche mark		**17**		415
Danish krona		**54**		93
French franc		**18**		27
Swiss franc		**4**		21
Canadian dollar		**526**		3
Austrian schilling		**41**		58
Swedish krona	**36**	**3**	56	33
Other	**1**	**65**	5	41
Total	**45**	**2 370**	61	2 000

The following table presents information regarding the contract amount in FIM equivalent amounts and the estimated fair value of all of the Group's forward exchange contracts with a positive fair value (assets) and a negative fair value (liabilities) as at December 31, 1996 and 1995:

	Group			
	Dec 31, 1996		Dec 31, 1995	
(FIM millions)	**Contract amount**	**Fair value**	Contract amount	Fair value
Forward exchange contracts:				
Assets	**365**	**7**	964	49
Liabilities	**2 050**	**–54**	1 097	–16

The Group utilizes interest rate and currency swaps to seek to manage their exposure to the risk of adverse movements in interest and foreign exchange rates. Interest rate swap agreements allow the Group to synthetically adjust floating rate receivables or borrowings into fixed rates or vice versa. Under interest rate swaps, an agreement is made with a counterparty to exchange, at specified intervals, the difference between fixed rate and floating rate interest payments calculated by reference to an agreed notional principal amount. The maturities of the interest rate swap agreements do not exceed the maturities of the debt to which they relate. The Group accounts for interest rate swaps on an accrual basis.

The following is a summary of interest rate swaps, interest/currency swaps and currency swaps of the Group. Swaps that have a positive fair value are listed as assets and swaps with a negative fair value are listed as liabilities.

	Group			
	Dec 31, 1996		Dec 31, 1995	
(FIM millions)	**Contract amount**	**Fair value**	Contract amount	Fair value
Interest rate swaps:				
Liabilities	**300**	**–1**	300	–5
Interest rate/currency swaps:				
Assets	**300**	**96**	300	108
Currency swaps:				
Assets	**–**	**–**	100	27

The following tables summarize the Group's interest and currency swaps and the debt to which such swaps relate:

Dec 31, 1996

Notional amount (FIM millions)	Receive rate	Pay rate	Maturity	Description
300	10.0 %	6 month LIBOR –margin	May 2002	Interest currency swap (a)
100	6 month LIBOR	6.21 %	May 2000	Interest rate swap (b)
100	6 month LIBOR	6.29 %	May 2001	Interest rate swap (b)
100	6 month LIBOR	6.35 %	May 2002	Interest rate swap (b)

Dec 31, 1995

Notional amount (FIM millions)	Receive rate	Pay rate	Maturity	Description
300	10.0 %	6 month LIBOR –margin	May 2002	Interest currency swap (a)
100	10.5 %	8.49 %	January 1996	Currency swap
100	6 month LIBOR	6.21 %	May 2000	Interest rate swap (b)
100	6 month LIBOR	6.29 %	May 2001	Interest rate swap (b)
100	6 month LIBOR	6.35 %	May 2002	Interest rate swap (b)

(a) The interest/currency swap with a contract amount of FIM 300 million is designated as a hedge of the Group's FIM 500 million bond issue (see Note 15) which is denominated in FIM, bears interest at a fixed rate of 10 percent and matures during 1998 to 2002. Under the terms of the interest/currency swap, the Group has converted FIM 300 million of such bonds to U.S. dollar-denominated debt with interest payable at the six-month London Inter-bank offered rate ("Libor") -margin on an aggregate contract amount of U.S.$ 58.9 million.

(b) In 1995, the Group entered into three U.S. dollar denominated interest rate swap agreements with a combined notional amount of FIM 300 million as a hedge of the bonds described in (a) above. Under the terms of these interest rate swap agreements, the Group receives interest at LIBOR and pays interest at the fixed rates specified in the table above.

Concentrations of Credit Risk

Credit risk represents the accounting loss that would be recognized at each reporting date if counterparties to contracts failed to perform as agreed. The Group has a limited credit risk exposure on its off-balance-sheet financial instruments. The Group does not have a significant exposure to any individual customer or counterparty.

23. LAWSUITS AND CLAIMS

Being a large, global operator, the Group is involved, as both plaintiff and defendant, in several lawsuits typical of this business area.

Below is a brief account of the most significant risks, as well as all pending and settled claims and disputes, in which Valmet is, or has been, involved.

On June 24, 1996, Valmet Corporation, Metra Corporation, the Finnish Guarantee Board, Carnival Corporation and the bankruptcy estate of Wärtsilä Marine Industries Inc. reached a settlement which finally terminated all disputes and court actions involving the parties concerned in the Marine bankruptcy. Under the terms of the agreement and in accordance with the previously made and published provisions, Valmet has paid FIM 190 million to the bankruptcy estate.

The original claim of the bankruptcy estate against Valmet was, according to the estimate of the Corporation, FIM 950 million plus penalty interest and legal costs. As a result of the agreement, the bankruptcy estate relinquished all claims on Valmet. There are no claims or legal actions pending against the Corporation related to the Marine bankruptcy.

In connection with normal business operations, Paper and Board Machines are involved in patent litigation in North America, the United Kingdom and Sweden and elsewhere. To defend its patented technology, Valmet has also instituted legal proceedings in various courts.

In a patent dispute between the then Valmet Paper Machinery Inc. and Beloit Corporation, a federal court in the USA announced a decision on November 28, 1994, requiring Valmet to pay Beloit damages for patent infringement amounting to USD 7.875 million. An appeal was lodged against the decision at a higher court, which reversed the lower court's judgment completely by its decision of January 28, 1997. The court declared the two disputed Beloit patents invalid and quashed the claims for damages and other restrictions imposed by the lower court.

Several product liability lawsuits against the Corporation are pending in the USA. However, taking product liability insurance into account, they cannot be considered as constituting any overall material risk. In addition, the normal risks of legal disputes over deliveries and the taxation risks involved in export delivery projects cannot be regarded as material in terms of the Corporation's total business activities.

24. OFFERING OF BONDS WITH WARRANTS TO SENIOR MANAGEMENT

The 1994 Annual General Meeting approved an issue of bonds with warrants, valued at FIM 500,000, to the members of Valmet Corporation's senior management. The bonds are valid for five years, carrying an interest rate of 5 % and an issue price of 100 %. The warrants entitle the holders to subscribe to a maximum of 1,000,000 shares from December 1, 1998 to January 31, 2001, at a subscription price of FIM 60. The bonds with warrants have been completely subscribed.

25. U.S.GAAP INFORMATION

The accompanying consolidated financial statements have been prepared in accordance with Finnish GAAP which differs in certain significant respects from U.S.GAAP. The following is a summary of the adjustments to net income and shareholders' equity that would have been required if U.S.GAAP had been applied instead of Finnish GAAP in the preparation of the consolidated financial statements.

	Group	
((FIM millions, except per share amounts)	**1996**	1995
Net income under Finnish GAAP	**806**	656
Adjustments to reconcile to U.S.GAAP:		
Long-term contracts (a)	**–53**	–14
Pensions (b)	**73**	58
Income taxes (c)	**–41**	–17
Goodwill (d)	**11**	11
Gain/loss on sale of business (e)	**–19**	–37
Investments (g)	**–30**	–28
Capitalization of interest (h)	**–1**	–1
Equity method investees (i)	**13**	8
Tax effect of U.S.GAAP adjustments	**8**	6
Net income under U.S.GAAP	**767**	642
Earnings per share (j)	**9.45**	7.54

	Group	
	Dec 31, 1996	Dec 31, 1995
Shareholders' equity under Finnish GAAP	**3 247**	3 066
Long-term contracts (a)	**–**	53
Pensions (b)	**–26**	–75
Income taxes (c)	**107**	140
Goodwill (d)	**–92**	–103
Revaluations (f)	**–70**	–70
Investments (g)	**46**	–20
Capitalization of interest (h)	**43**	44
Equity method investees (i)	**9**	–4
Shareholders' equity under U.S.GAAP	**3 264**	3 031

Those differences which have material effect on consolidated net income and shareholders' equity are as follows:

a) Long-term contracts

Under Finnish GAAP, the Group used the "completed contract" method of recognizing revenue on long-term contracts until the year end 1995. That is, the revenue was recorded as earned when the construction period was complete and delivery had been made to the buyer. Commencing on January 1, 1996 revenue from long-term delivery contracts under Finnish GAAP is recognized using the percentage of completion method, whereby revenue is recognized as earned over the term of the contract based upon progress of the project and proportion of estimated total contract costs.

Under U.S.GAAP, the Group would be required to use the "percentage of completion" method also for the years before 1996. Under both Finnish and U.S.GAAP, losses are recognized when known on contracts that are expected to incur a loss.

b) Pensions

The Group companies have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. Most of these programs are defined benefit pension schemes with retirement, disability, death and termination income benefits. The retirement income benefits are generally a function of years of employment and final salary with the company and are generally coordinated with local national pensions. The schemes are generally funded through payments to insurance companies or to trustee-administrated funds as determined by periodic actuarial calculations. The Group's policy for funding its defined benefit plans is to satisfy local statutory funding requirement for tax deductible contributions. The Group contributes at least an amount equal to the minimum funding requirements for the countries in which it maintains pension schemes that are subject to such requirements. The Group also participates in some multiemployer pension arrangements and defined contribution pension arrangements.

Under U.S.GAAP, the determination of pension expense for defined pension plans is made pursuant to Statement of Financial Accounting Standard " Employers' Accounting for Pensions" (SFAS No 87). SFAS No 87 is more prescriptive than Finnish GAAP in that it requires the use of a specific actuarial method (the projected units method). Also under SFAS No 87, under certain circumstances, a minimum liability is recorded with a corresponding intangible asset and/or reduction of shareholders' equity for plans that are underfunded.

c) Income taxes

Under Finnish GAAP, the Group recorded deferred income taxes primarily on the amount of untaxed reserves and accelerated depreciation.

Under U.S.GAAP, deferred taxes are required to be recorded on differences between the book basis and the tax basis of all assets and liabilities. Deferred tax liabilities are recognized regardless of the likelihood of reversal of such amounts and deferred tax assets are reduced by a valuation allowance to the amount that is "more likely than not" to be realized.

d) Goodwill

Under Finnish GAAP, negative goodwill arising from the excess of the fair value of the net assets acquired over the purchase price of an acquired business is recorded directly to shareholders' equity.

Under U.S. GAAP, such negative goodwill is recorded as a reduction in the value of acquired long-lived assets, thus reducing future levels of depreciation expenses for those assets.

e) Gain on sale of business

During 1996, The Group sold 50.1 percent of the share capital of Aviation (Finavitec) to the State of Finland and recognized a gain of FIM 19 million in the income statement. In 1995 the Group recognized a gain of FIM 37 million for the sale of land and buildings to Sisu.

Under U.S.GAAP, sales or transfers of assets between the Company and the Finnish State, due to the Finnish State's majority ownership in the Company at the moment of sale of Aviation, are recorded at their predecessor book values and accordingly, no gain or loss is recorded in the income statement. Treatment of the gain resulting from the sale of land and buildings to Sisu would also be treated as a transfer of assets at book value under U.S.GAAP due to the Finnish State's majority ownership in Valmet and Sisu at the moment of transaction. The excess of the book value of the assets received over the book value of the net assets transferred to the State of Finland regarding Aviation, and to Sisu regarding land and buildings, would be recorded as capital contributions directly to shareholders' equity under U.S.GAAP.

f) Revaluations

Under Finnish GAAP, certain fixed assets and investments in associated companies can be revalued with any resulting revaluation surplus recorded directly in shareholders' equity. Under U.S.GAAP, no such increases in the carrying value of fixed assets and investments in associated companies are permitted.

g) Investments

Under Finnish GAAP, the Group records short-term investments at market value and changes in the market value are recorded as part of "Financial income and expense" in the Income Statement.

For U.S.GAAP purposes, all of the Group's investments in debt securities and equity securities with a readily determinable market value are classified as "available-for-sale" and are recorded at fair value with changes in unrealized appreciation or depreciation recorded directly to shareholders' equity, net of applicable deferred income taxes.

h) Capitalization of interest

Under Finnish GAAP, capitalization of interest is allowed, but not specifically required on projects that are constructed for an entity's own use. The Group presently does not capitalize interest on such self-constructed assets.

Under U.S.GAAP, capitalization of interest on assets constructed for an entity's own use is required based upon the weighted average capital expenditures on self-constructed assets.

i) Equity method investees

In the accompanying Consolidated Financial Statements, the Group has reduced its investment in the shares of an associated company as the result of the Group's share of the losses of that equity method investee company. The Group discontinues the use of the equity method when the investment is reduced to zero and when the Group has not guaranteed to provide further finance.

Under U.S.GAAP, a similar principle would be followed except that the investment in associated companies would also include the amount of any advances made. In addition, this adjustment includes the Group's proportionate share of U.S.GAAP adjustments to the earnings of associated companies.

j) Earnings per share

Earnings per share for Finnish GAAP purposes is based upon income after financial items deducted with income taxes and minority interests divided by the weighted average number of shares outstanding.

For U.S.GAAP, earnings per share would be based upon net income divided by the weighted average number of shares outstanding.

Key Figures and Financial Ratios 1992–1996

(FIM millions)	1992	1993	1994	1995	**1996**
Orders booked	10 953	10 972	8 928	12 131	**10 486**
Order backlog, December 31	5 644	5 907	6 381	9 699	**8 086**
Net sales	9 645	10 676	8 328	8 574	**11 764**
Net sales change, %	25.8	10.7	–22.0	2.9	**37.2**
Operating profit	171	479	371	530	**921**
Operating profit, %	1.8	4.5	4.5	6.2	**7.8**
Income after financial items	–298	100	203	637	**1 056**
Income after financial items, %	–3.1	0.9	2.4	7.4	**9.0**
Income before taxes	–219	–54	178	719	**1 020**
Income before taxes, %	–2.3	–0.5	2.1	8.4	**8.7**
Net income for the year	–120	85	173	656	**806**
Exports and international operations	7 376	8 838	6 753	7 208	**7 891**
Exports and international operations, % of net sales	76.5	82.8	81.1	84.1	**67.1**
Capital expenditures	1 209	447	266	461	**632**
Capital expenditures, % of net sales	12.5	4.2	3.2	5.4	**5.4**
Research and development	256	295	300	374	**493**
Research and development, % of net sales	2.7	2.8	3.6	4.4	**4.2**
Research and development expenses in the income statement	227	248	298	306	**404**
Number of personnel, December 31	17 204	15 716	12 146	12 808	**12 871**
Shareholders' equity and minority interests	1 921	1 993	2 533	3 094	**3 283**
Balance sheet total	12 200	11 766	8 905	9 641	**8 302**
Net debt / equity, %	218.1	177.8	37.5	–3.2	**–9.5**
Equity ratio, %	17.9	19.2	33.3	40.6	**42.8**
Return on net assets, %	6.5	9.2	9.4	16.0	**23.4**
Return on equity, %	–17.7	10.7	8.7	20.7	**26.6**
Earnings / share, FIM	–5.86	2.73	2.50	6.74	**10.26**
Dividend / share, FIM	–	–	0.50	1.75	**3.00** [1)]
Dividend / earnings, %	–	–	20.0	26.0	**29.2**
Market value of shares, Dec. 31, FIM millions	1 244	2 453	3 830	4 638	**6 326**

[1)] Proposal by the Board of Directors

Accounting Principles

Valmet's Financial Statements have been prepared in accordance with the Finnish Accounting Act. The following accounting principles have been applied to all subsidiaries in the consolidated financial statements.

Basis of consolidation Subsidiaries in which Valmet's holdings exceed 50 percent are consolidated in the financial statements. The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of purchase or up to the date of sale. The acquisition of companies is accounted for using the purchase method. The excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill and is amortized on a straight-line basis over a ten year period. Commencing in 1994, goodwill for new acquisitions is amortized over a five year period as the result of the implementation of a new accounting standard under the Finnish Accounting Act pursuant to which amortization of goodwill is recorded over a period of five years except in circumstances in which a life of twenty years can be justified. All inter-Group transactions and balances have been eliminated in consolidation process.

Associated companies The equity method of accounting is used for investments in associated companies in which the investment provides the Company with the ability to exercise significant influence over operating and financial policies of the investee company. Such influence is presumed to exist for investments in companies in which the Group's direct ownership or indirect ownership is between 20 percent and 50 percent. Under the equity method, the Group's share profits and losses of associated companies is included in the Consolidated Income Statement. The Group's share of post-acquisition retained profits and losses of associated companies is reported as part of investments in associated companies in the Consolidated Balance Sheet.

Foreign currencies Foreign currency transactions are recorded at the exchange rate of the date of origin, or at a forward contract rate if hedged through related forward exchange contract. Realized and unrealized exchange rate gains and losses related to unhedged transactions are recorded in the income statement as financial income and expenses.

Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates unless a related or matching forward exchange contract or currency swap has been entered into, in which case the rate specified in the contract is used. Exchange rate differences on assets and liabilities denominated in a foreign currency that are not covered by hedging arrangement are recorded in the income statement.

Foreign subsidiaries In the consolidated financial statements, the income statements of foreign subsidiaries are translated into Finnish markka at the average rate of exchange prevailing during the year and the balance sheets are translated at the exchange rate at the balance sheet date. Exchange differences arising on the translation of financial statements of foreign subsidiaries are recorded to shareholders' equity.

Derivative financial instruments

Forward exchange contracts and currency swaps
Gains and losses on forward exchange contracts and currency swaps that are designated and effective as hedges of firm foreign currency commitments are deferred and recognized in income or as adjustments of carrying amounts when the hedged transaction occurs.

Interest rate swaps
Interest rate swap agreements that are designated as a hedge of a debt obligation are accounted for on an accrual basis. That is, the interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to the interest expense of the designated liability.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date based on amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are recorded in income over the remaining period of the original swap agreement.

It is the policy of the Group that the terms and the contractual maturities of the interest rate swap agreements must correspond to the underlying debt obligation to which the swap relates in order to qualify for hedge accounting.

Revenue recognition Commencing on January 1, 1996, the revenue from long-term delivery contracts is recognized using percentage of completion method. Percentage of completion is determined by reference to the extent of contract performance based on achievements of milestones. The revenues from other goods and services sold is recognized when substantially all of the risks and obligations of ownership are transferred to the buyer, or when the service is performed. When moving into the percentage of completion method, the respective figures of previous years have not been changed to correspond to the new method of revenue recognition. If the percentage of completion method had been applied with respect to work in progress on December 31, 1995, the estimated gross profit included in that balance that would have been reported as revenues is FIM 53. That amount has been reported in the Income Statement in 1996 as an extraordinary income.

Fixed assets and depreciation Fixed assets are recorded at historical cost. Revaluations of long-term investments are made in certain cases. Tangible fixed assets are depreciated commencing on the date of acquisition and using the straight line method over the useful life of the asset or through the date of disposal. Typical useful lives of tangible fixed assets are as follows:

Buildings	15–20 years
Heavy machinery	10–12 years
Other machinery	8–10 years
Vehicles, office and EDP equipment	3–5 years

Rent expense on operating leases is recognized evenly over the terms of the lease.

Other intangible assets Intangible assets consisting primarily of patents, licences and other similar items are amortized over their estimated useful lives which are 3 to 10 years.

Inventories Inventories are recorded at the lower of cost or market value calculated on a "average cost" basis. Historical costs include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus social costs, subcontracting and other direct costs. In addition, production costs include an allocable portion of production and project administration overheads. Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to income in the period in which loss occurs based upon an assessment of technological obsolescence, turnover and related factors.

SHORT-TERM INVESTMENTS Short-term investments are recorded at market value and gains or losses arising from changes in market value are recognized in the income statement.

PENSIONS AND OTHER RETIREMENT BENEFITS The cost of retirement benefits is accounted in the period during which the services are rendered by employees. Valmet has various retirement plans in accordance with local regulations and practices. The cost of these plans is charged to income systematically and the amounts are based on actuarial calculations or on insurance companies' charges.

A portion of the voluntary additional pension liability incurred in previous years is not fully funded. It is recorded in assets as unfunded pensions and in liabilities as long-term accrued expenses. This pension liability will be charged to income by the end of the year 2000.

RESEARCH AND DEVELOPMENT EXPENSES
Research and development costs are generally charged to income as they are incurred except that such costs may be deferred in limited circumstances if such costs have alternative future use. If such costs are deferred, systematic amortisation is made over periods not exceeding five years.

PROVISION FOR WARRANTY COSTS An accrual is made for expected warranty costs in the period when the respective revenue recognition is made. Management reviews the adequacy of this accrual periodically based on historical analysis and anticipated product returns.

INCOME TAXES Income taxes consist of direct taxes and the change in deferred taxes on untaxed reserves and accelerated depreciation. Direct taxes are calculated on the results of the consolidated companies and according to the local tax rules of each country. In the consolidated financial statements, untaxed reserves have been divided between a deferred tax liability and shareholders' equity.

CHANGES IN ACCOUNTING POLICIES
In 1995, the Group's U.S. subsidiary adopted a new standard for the accrual of post-retirement benefits (SFAS No. 106). Commencing in 1996, the Group adopted the Percentage of Completion Method of Revenue Recognition.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Definition of Financial Ratios and Key Indicators

EQUITY RATIO, % [1, 6] =

$$\frac{\text{Shareholders' equity + Minority interests}}{\text{Total assets – Billings in excess of cost and earnings}} \times 100$$

RETURN ON NET ASSETS % =

$$\frac{\text{Income after financial items + Financial expenses}}{\text{Balance sheet total – Non-interest-bearing debt (average for the year)}} \times 100$$

RETURN ON EQUITY, % [1, 5] =

$$\frac{\text{Income after financial items – Taxes}}{\text{Shareholders' equity + Minority interest (average for the year)}} \times 100$$

NET DEBT/EQUITY, % [1] =

$$\frac{\text{Interest-bearing debt – Cash and short-term investments}}{\text{Shareholders' equity + Minority interest}} \times 100$$

DIVIDEND/SHARE, FIM [2, 3] =

$$\frac{\text{Nominal dividend}}{\text{Issue-adjusted number of shares on Dec. 31.}}$$

DIVIDEND YIELD % [2, 3] =

$$\frac{\text{Dividend/share}}{\text{Issue-adjusted share price on Dec. 31.}} \times 100$$

EARNINGS/SHARE, FIM [2, 3, 4, 5] =

$$\frac{\text{Income after financial items –Taxes – Minority interest}}{\text{Average number of shares adjusted for share issue}}$$

P/E-RATIO [2, 3] =

$$\frac{\text{Issue-adjusted share price on Dec. 31.}}{\text{Earnings/share}}$$

CASH FLOW/SHARE, FIM [2, 3, 4, 5] =

$$\frac{\text{Income after financial items + Depreciation – Taxes}}{\text{(Average number of shares adjusted for share issues}}$$

EQUITY/SHARE, FIM [1, 2, 3] =

$$\frac{\text{Shareholders' equity}}{\text{Issue-adjusted number of shares on Dec. 31.}}$$

DIVIDEND/EARNINGS, % =

$$\frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$$

(1) In calculations of this ratio in 1993 and earlier, shareholders' equity included the total untaxed reserves. In 1994, 1995 and 1996, however, shareholders' equity includes untaxed reserves net of deferred taxes.

(2) In calculations of ratios related to shares the dilution effect of the FIM 500 000 bonds with warrants has not been calculated.

(3) At March 25, 1996, the nominal value of shares was changed from FIM 20 to FIM 10 per share and the number of shares was increased in a 2-for-1 share split. The ratios have been retroactively adjusted for all periods presented based on the 2–for–1 share split.

(4) The ratios of 1996 have been adjusted with the redemption and cancellation of those shares made at June 7, 1996.

	Number of shares, Dec. 31.	Average number of shares
1992	71 101 430	68 652 114
1993	71 101 430	71 101 430
1994	85 101 430	79 079 512
1995	85 101 430	85 101 430
1996	78 100 000	81 130 756

(5) Taxes from years 1994, 1995 and 1996 include the change in deferred tax liability from untaxed reserves. Taxes from 1996 have been adjusted with the tax effects of extraordinary items.

(6) In calculating the equity ratios for the years 1992–1995, the amount of advances received was deducted from the Balance Sheet total. After having adapted the percentage of completion of revenue recognition in 1996, the billings from the customer regarding long-term projects are offset by cost and earnings in the balance sheet. The amount of Billings in excess of cost and earnings of uncompleted projects is deducted from the Balance Sheet value.

Auditors' Report

To the shareholders of Valmet Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the President of Valmet Corporation for the year ended December 31, 1996. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Supervisory Board, the Board of Directors and the President have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

We have acquainted ourselves with the interim financial statements made public by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, February 28, 1997

KPMG Wideri Oy Ab/
Eero Suomela
Authorized Public Accountant

Statement by the Supervisory Board

The Supervisory Board of Valmet Corporation has examined the financial statements and Auditors' Report of the Company for the year 1996 at its meeting today.

The Supervisory Board hereby states as its recommendation to the 1997 Annual General Meeting that the Income Statement and Balance Sheet for the year 1996 be adopted and that the profit be handled in the manner proposed by the Board of Directors.

The term of office for Supervisory Board members Hannu Kemppainen, Jarmo Leppiniemi, Leena Luhtanen, Markku Mäkinen and Paavo Rantanen expires at the end of the 1997 Annual General Meeting. In addition, the post of Chairman of the Supervisory Board has been unfilled since September 21, 1996.

Helsinki, March 12, 1997

Teuvo Kinnunen	Hannu Kemppainen	Jussi Niemi
Vice Chairman	Jarmo Leppiniemi	Paavo Rantanen
	Leena Luhtanen	Kari Uotila
	Markku Mäkinen	Markku Vuorensola

Net sales grew strongly

Customer mills in Valmet's traditional main markets of Europe and North America are continuing to invest primarily in rebuilds to improve quality and competitiveness. Asian customers have still invested in entire machines. During 1996, new orders worth FIM 8.4 billion were gained.

The global paper and board markets were characterized by non-uniformity and uncertainty in 1996. The price of pulp fell sharply from the previous year's record level, bringing paper grade prices down with it, although not uniformly or as sharply. However, the fall in prices levelled out in the summer and the price level thereafter remained relatively stable. Consumption of different paper and board grades continued to grow – according to initial indications by almost 2% on the previous year. This, combined with an expected reduction in pulp reserves, prompted several paper producers to plan price increases in late 1996 and early 1997.

The European and North American paper industries have attempted to influence prices by operational cutbacks to restrict paper supply. Although the sector's profitability has inevitably weakened from the record level of 1995, profitability and cash flow are still considerably better than at the beginning of the 1990's. However, lower profitability has made companies very cautious before investing in new machinery. In Asia, output has continued to increase strongly as a result of new capacity coming on stream.

The largest papermakers in Europe and North America have still increased capacity through rebuilding, acquisitions and restructuring, rather than through new investment. Machine investments in Asia, on the other hand, have focused on entire new production lines. This ambitious investment program has significantly increased Asia's share of world paper production during the current decade.

Competition has remained extremely tight in all Valmet's markets. The company is continuing to develop its operations in the increasingly important South East Asian markets. In order to improve customer service and accessibility, Valmet is transferring its personnel from the Singapore office to Jakarta in Indonesia and Bangkok in Thailand. This is happening in stages, and all staff will have been transferred to their new posts by the end of 1997. Valmet also has facilities in Japan, China, Korea and Taiwan.

Order backlog continues optimal Orders worth MFIM 8,442 – 14 % less than the previous year – were won in 1996. At the end of the year, the order backlog totalled FIM 7.3 billion, 13% less than the previous year. This must be regarded as satisfactory, however, in view of the increased capacity and shorter delivery times resulting from Valmet's new production philosophy.

In 1996, Valmet gained orders for 13 complete machines – seven from Asia, five from North America and one from Finland. Five of the orders gained were for fine paper machines, three for tissue machines, two for linerboard machines, and one each for coated magazine paper (LWC), uncoated magazine paper (SC) and coated boards.

Most of the printing paper machines ordered were large. They included an LWC line for UPM Kymmene's Rauma mill in Finland, an SC magazine paper line for Stora's Port Hawkesbury mill in Canada, fine paper machines for Hokuetsu's Niigata mill in Japan and for Willamette's Hawesville mill in the US, and two fine paper lines for the Singapore-based APRIL group's Indonesian mills.

PM2 at Hankuk Paper's Onsan mill in South Korea is the world's fastest fine paper machine.

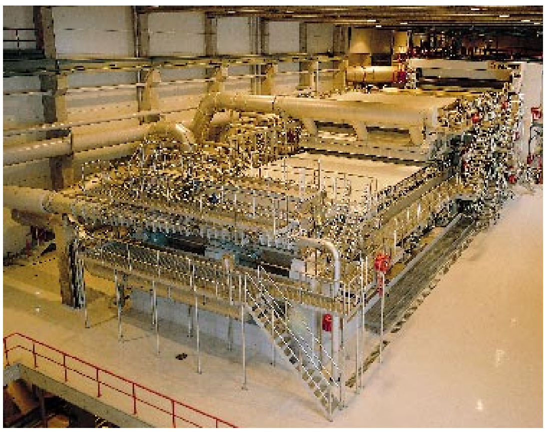
Key Figures, FIM millions	1996	1995
Net Sales	**9 602**	6 560
Operating Profit	**705**	425
Total Assets, Dec 31	**4 568**	5 038
Personnel, Dec 31	**9 042**	8 674
Order Backlog	**7 251**	8 288
Investments and R&D	**574**	476

The year's largest delivery was a coated fine paper line for Metsä-Serla's Kirkniemi mill in Finland.

In early 1997, the APRIL group placed a third order for a large fine paper machine for its Changsu mill in China.

In addition, a number of extensive rebuilds were ordered from Valmet. The largest orders were from Finland's Metsä-Botnia and UPM Kymmene, respectively for their Kemi and Kaipola mills, from Stora for its Hylte mill in Sweden, from Norske Skog for its Halden mill in Norway, from Gebr. Lang for its Ettringen mill in Germany, from Blandin Paper for its Grand Rapids mill in the USA, from Daishowa for its Shiraoi mill in Japan, and from Carter Holt Harvey for its Kinleith mill in New Zealand.

The pulp drying machine at Metsä-Rauma's TCF pulp mill in Finland is a showcase of new Valmet technology – including airborne dryer and shoe press.



Valmet continued to expand its market share in finishing systems as well as to penetrate new markets. All product groups experienced growth. The largest orders were part of Valmet's complete line deliveries. The LWC line order for UPM Kymmene's Rauma mill includes, for example, an on-machine coater with OptiBlade coating heads, new generation OptiLoad calenders and WinRoll winders, an extensive roll handling line and coating color preparation and handling equipment. The LWC line ordered by South Korea's Shinmoorim Corporation also includes new generation OptiLoad calenders.

Large orders were received from KNP Leykam's Gratkorn mill in Austria (winders), Stone Consolidated's Grand-Mère mill in Canada (winders), Marusumi Paper's Kawanoe mill (film press and winders) and Mitsubishi Paper's Hachinoe mill (film press and Optireel). A new market opened up with the receipt of two roll wrapping machine orders for Chile.

The converting machinery market livened up. The order backlog for all product groups – rotogravure and flexo printing presses, and special coating and laminating machines – increased. Orders were received not only from traditional European and North American markets, but also from several Asian countries, including Japan, and from South America.

Air systems were sold for many of the new machines supplied by Valmet. Runnability systems – intended to improve machine efficiency and runnability, as well as paper quality – were also sold with many dryer section rebuilds. The largest air system orders were ventilation sys-

A linerboard machine was delivered to Georgia-Pacific's Big Island mill in the USA.

tems for the LWC line at UPM Kymmene's Rauma mill in Finland and for the SC machine at Stora's Port Hawkesbury mill in Canada, a heat recovery system for KNP Leykam's Gratkorn mill in Austria and a ventilation system for Shinmoorim's LWC line in South Korea. Customers' increasing interest in environmental aspects has been effectively utilized in marketing new air systems.

Stock preparation equipment has again successfully expanded its market reach. Extensive orders were received for pulpers and screens, both as part of total package deliveries by Valmet, and in the form of direct orders from new markets.

New technology successes Valmet has prioritised technological progress and has therefore been intensifying its research and development activities. Good results have been obtained from networking with universities, research institutes and customers. By establishing active cooperation networks in all of its main markets, Valmet has ensured that special regional characteristics are taken into account in the development of technology and knowhow.

The collaboration with KCL – the Finnish Pulp and Paper Research Institute is an example of a new approach to technological development. By networking with research institutes, Valmet is able to commercialize the results of basic research done in the scientific world. In return, the research institutes benefit from the opportunity to apply their research results in practice.

Active cooperation with forest industry companies is another method employed by Valmet to accelerate the development of technology and new products. Measures encouraging innovativeness are also an integral part of this systematic approach.

A new research center established in Jyväskylä, Finland, to develop printing paper machines was inaugurated in February, 1996. The pilot machine, which incorporates many technological innovations, has already put papermaking into a new speed zone.

A rebuild and extension of the pilot coater at the Järvenpää, Finland, research center began. An extension of the Air Systems' research center also got under way at Pansio, in Finland, and will house a runnability simulator, a sound laboratory and the rebuilt pilot machine. Air Systems has developed its products in anticipation of paper mills' future environmental demands relating to noise and dust management, mist removal and energy conservation.

New or improved products created by Valmet's R & D activities have played a decisive role in the sales success of recent years. This has been reflected in constantly improving speed records for printing paper machines and in new paper and board production concepts. In 1996, a newsprint machine delivered to Enso's Sachsen Papier in Germany set a world record speed of 1,643 m/min. The pilot machine of Finland's KCL produced a new speed record for coaters of 2,503 m/min.

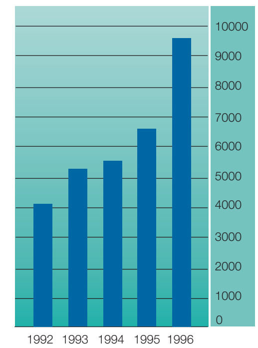
The most successful innovations at the paper machine wet end include the application of the Speed-Former gap former to an increasing number of paper and board grades, and the development of a dilution headbox. The patented Sym-Belt shoe press, originally designed for board making, has been successfully adapted for the production of printing papers and pulp.

The most significant product innovation launched for the paper machine dry end was the Condebelt drying concept. Results during its first year of operation at Enso's Pankakoski board mill in Finland have clearly exceeded expectations. The Optireel is still technologically unique, and consolidated its position as the world market leader.

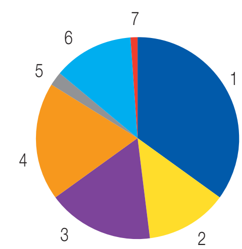
Coating solutions for the improvement of paper surface properties, such as the Sym-Sizer film press, the Optisoft calender and the new OptiBlade and Opticoat Jet coating heads, have all become market successes. The most significant advances in paper finishing machine technology are represented by the new generation WinRoll winder, and the OptiLoad calender which had its first production start-up in 1996.

Air dryers have achieved success in coating drying, in both papermaking and converting applications. The first airborne dryer for pulp was started up at Metsä-Rauma's pulp mill in 1996. New HS blow box technology for high speed paper machines was also introduced to the market.

Net Sales, FIM millions



Net Sales by Market Area

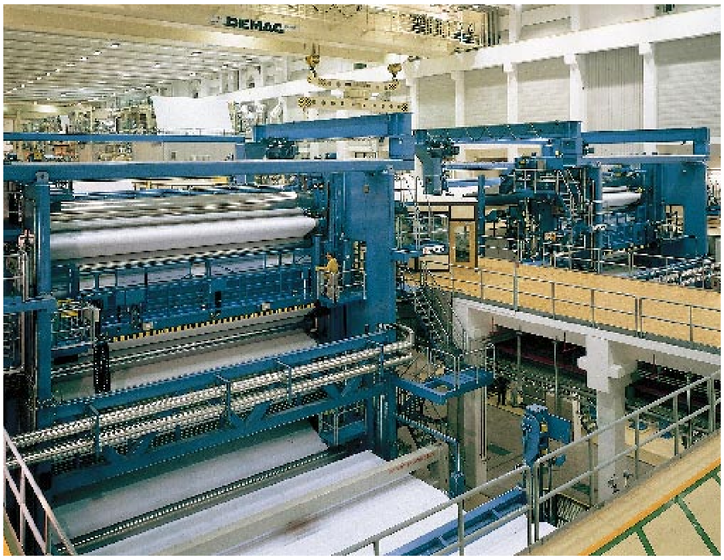


1	Finland	35 %
2	Other Nordic countries	13 %
3	Other Europe	17 %
4	North America	19 %
5	South America	2 %
6	Asia	13 %
7	Other countries	1 %

INCREASE IN NET SALES Eleven complete, Valmet-supplied paper, board and pulp machines were started up in 1996, as opposed to 13 in 1995. Three of the new start-ups were in Finland, two in North America and South Korea, and one each in Sweden, Mexico, China and Taiwan. The largest of these was a coated fine paper line for Metsä-Serla's Kirkniemi mill in Finland, a release paper machine for UPM Kymmene's Tervasaari mill in Finland, a pulp drying machine for Metsä-Rauma in Finland, a liquid packaging board line for Stora's Skoghall mill in Sweden, a liner board machine for Georgia-Pacific's Big Island mill in the USA, and newsprint machines for the Hansol and Onyang companies in South Korea.

Other large deliveries in 1996 included a board machine for Cheng Loong's Hou-Li mill in Taiwan, rebuilds of board machines for Metsä-Serla's Tako mill in Finland, SCA Munksund's Piteå mill and Stora's Nymölla mill (both in Sweden), a rebuild of a coated paper line for Stora Kabel's Hagen mill in Germany, a newsprint machine rebuild for Gebr. Lang's Ettringen mill in Germany, a rebuild of an SC paper machine for Abitibi-Price's Kenogami mill in Canada, a linerboard machine rebuild for Packaging Corporation's Counce mill in the USA, and a newsprint machine rebuild for Guangzhou in China.

Air Systems' net sales increased as a result of the machinery and equipment included in large deliveries of complete paper and board making lines. Extensive deliveries were made to Finland, Sweden, Norway, Germany, the USA, Thailand and Indonesia.



Two new Valmet supercalenders with Dura polymer rolls (for 9.5 m wide paper) at UPM-Kymmene's Nordland Papier mill in Germany.

Paper finishing machinery accounted for a major proportion of 1996's deliveries. The most extensive delivery was a complete paper finishing line for Metsä-Serla's Kirkniemi mill. A large delivery of paper finishing machinery was also made to UPM Kymmene's German subsidiary Nordland Papier's Dörpen mill, consisting of a continuously operating coating colour kitchen, a coater, two supercalenders, a matt calender and a roll wrapping line. Other large deliveries included a coater and winder for Blandin Papers' Grand Rapids mill in the USA, a coater and winders for Stora's Skoghall mill in Sweden and a roll handling line for Pindo Deli in Indonesia.

The Service business continued its rapid expansion into new markets. Towards the end of the year, the foundation stone was laid for a new technology center in Laem Chabang, near Bangkok in Thailand. Upon completion in late 1997, it will serve the Thai paper industry and neighboring regions by providing roll reconditioning, service and spare parts.

Nine pressure grinders were delivered in 1996 – two of them to Papeles Bio Bio in Chile, thus opening up a new market in South America.

1997 OUTLOOK Demand for paper and board products is expected to grow in 1997, probably at a slightly faster rate than last year, due to increasing consumer demand in the industrialized countries. It is expected that the readiness of the North American, and following that, the European, paper industry to invest will revive towards the end of the year, provided paper grade price level begin to rise. Asia will continue to invest in complete new machines, although the total amount of investment will start to level off. South American markets have recently shown evidence of becoming slightly more active.

An off-machine coater with four AutoBlade coating heads on the art printing paper line at UPM-Kymmene's Nordland Papier mill in Germany.

Positive development

Valmet Power Transmission's operations developed positively in 1996, with net sales up by more than one third on the previous year. All major targets for order intake, net sales and profitability were exceeded.

Demand for gears was steady and the order backlog remained good, being slightly up on a year ago.

Hydraulic motors' invoicing grew by one third from the previous year. Demand for hydraulic motors developed unevenly in each market.

CHANGES IN ORGANIZATION AND PREMISES Valmet Power Transmission Inc. was reorganized as one of Valmet's core businesses in 1996. Power Transmission is the Valmet Group's technology center for gears and mechanical drive systems. At the same time, Power Transmission's hydraulic motors unit became a subsidiary, Valmet Hydraulics Inc.

A start was made in transferring Valmet Hydraulics Inc. to a new production facility outside Jyväskylä. This project will be completed by mid-1997. Gear production is being expanded to fill the space vacated by hydraulic motors in Jyväskylä.

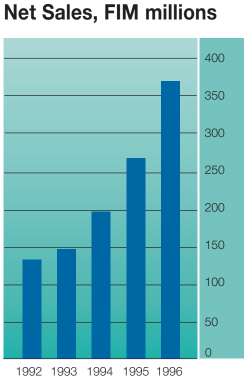
CUSTOMER, SUPPLIER AND INTERNAL COOPERATION During the year, several product development projects were carried out in cooperation with customers, aimed at finding the best technical solutions for improving the runnability of customer equipment and modularizing the products. The service business was also developed. The operating structure was systematically improved by investing strongly in the network of resources and suppliers and in personnel training.

A set of customer satisfaction indicators was devised, in cooperation with the University of Jyväskylä, as part of the development of Malcolm Baldrige standards within Power Transmission and the Valmet Group.

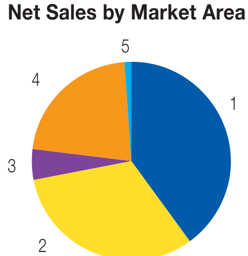
1997 OUTLOOK The outlook for 1997 is favorable. The challenging project of moving 120 hydraulic motors employees with machinery to the new production facility will soon be completed and the gears business will be able to expand into the vacated space. The order backlog is good. Despite lower demand in some markets, Power Transmission's investment in service operations and its improving market share are expected to result in continued positive progress being made.

Key Figures, FIM millions	1996	1995
Net Sales	**369**	267
Operating Profit	**41**	21
Total Assets, Dec 31	**239**	213
Personnel, Dec 31	**416**	364
Order Backlog, Dec 31	**163**	176
Investments and R&D	**57**	27

Net Sales, FIM millions



Net Sales by Market Area



1	Finland	40 %
2	Other Nordic countries	32 %
3	Other Europe	5 %
4	North America	22 %
5	Asia	1 %

The most recent paper machine speed records have been run on machines equipped with Valmet's mechanical drives.

Board of Directors 1997
Matti Sundberg, Chairman
Juha Korhonen, Vice Chairman
Mikko Karvinen
Hannu Korpisaari

President
Erkki Pylvänäinen

Success in all markets

Valmet Automation's net sales grew by more than a quarter compared to the previous year. Operating profits improved to a greater extent, being one third higher than in 1995. In addition to investing in service and sales network, Valmet Automation continues to invest strongly in R & D.

Key Figures, FIM millions	1996	1995
Net Sales	**1 581**	1 253
Operating Profit	**140**	102
Total Assets, Dec 31	**818**	877
Personnel, Dec 31	**1 931**	1 711
Order Backlog, Dec 31	**823**	905
Investments and R&D	**148**	128

Board of Directors 1997
Matti Sundberg, Chairman
Mauri Jaakonaho, Vice Chairman
Markku Kangas, President
Ane Ahnger
Martti Karttunen
Heikki Keränen

Net sales grew by 26 % in 1996, exceeding FIM 1.5 billion. Growth was most significant in Central and North Europe. The most notable 1996 deliveries of automation, quality and information systems for the paper industry were made to Nordland Papier GmbH in Germany, Suzhou Papyrus Co. Ltd. in China, Cheng Loong Co. Ltd.'s Hou-Lin mill in Taiwan and International Paper Co.'s Mansfield mill in the USA. Sensodec delivered condition and runnability monitoring systems to Stora Paperboard AB in Sweden, SCA Laarkirchen in Austria, SCP Ruzomberok in Slovakia, and Metsä-Serla Paper & Board Ltd. and UPM Kymmene Group's Tervasaari mill in Finland.

Major deliveries to the pulp industry included automation for new production lines at Metsä-Rauma's TCF pulp mill and UPM Kymmene's Kaukas pulp mill, and for the rebuild of Enso Fine Papers' Veitsiluoto pulp mill, all in Finland.

LARGE SYSTEMS FOR THE PULP AND PAPER INDUSTRY Investment in pulp and paper industry automation declined in 1996, causing the intake of new orders, which had grown strongly for two years, to fall by about 6 %.

The most significant delivery contracts gained from the paper industry were system orders for UPM Kymmene's new Rauma paper mill, Stora's Port Hawkesbury mill in Canada, the PT Pindo Deli and PT Surya Kertas companies in Indonesia, the Asia Paper and Shin Ho companies in Korea and Carter Holt Harvey Packaging's Whakatane mill in New Zealand.

The first Damatic XD control system delivery contracts for South America and Japan were won in 1996. Sales of the new PaperIQ scanners grew by about 50 % on the previous year.

The RM-200 paper machine wet end control system is rapidly becoming the industry standard for raising production and improving quality. RM-200 system orders from Europe and the Far East reached record levels. MCA consistency analyzers were especially successful in the Swedish market.

Extensive systems for pulp production were sold to SCP Ruzomberok in Slovakia, Biocell, a.s. Paskov in the Czech Republic, Lenzing AG in Austria, Mondi Ltd.'s Richards Bay mill in South Africa and Tetra-Laval in Svetogorsk, Russia.

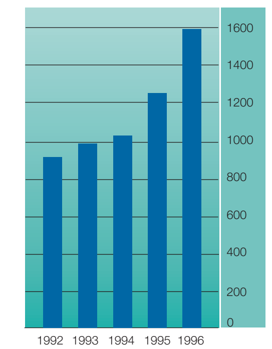
The new Kajaani formation analyzer improves measurement accuracy and repeatability compared to conventional visual assessments of paper samples. It can be easily used to test individual sheets or for the fully-automated testing of paper profiles.

Pulp mills' desire to reduce the use of chemicals and increase chlorine-free bleaching led to increased deliveries of Kajaani sensors and analyzers. In just four years, the Kappa Analyzer has gained a 70 % market share of new sales. Deliveries of bleaching sensors and consistency analyzers to South America also grew considerably.

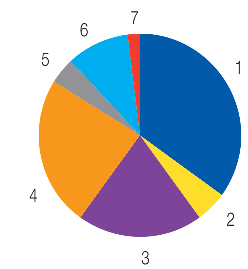
ENERGY AUTOMATION COOPERATION CONTRACTS System deliveries in cooperation with international equipment suppliers continued. New, mainly East European, partners were sought for the planning of energy automation deliveries to Central Europe. The most significant energy automation deliveries of 1996 were for several desuphurization plants in the Czech Republic and for Enso Española in Spain, where the delivery also included new applications for calculation and energy production optimization. A new sludge burning plant, commissioned by the City of Munich's water and sewage works, is controlled by a Damatic XD. New energy automation orders were received from Central Europe and Finland.

In North America, Valmet retained its position as the market leader in SCADA systems for oil and gas pipelines. Last year's largest projects included OASyS® system deliveries for

Net Sales, FIM millions



Net Sales by Market Area

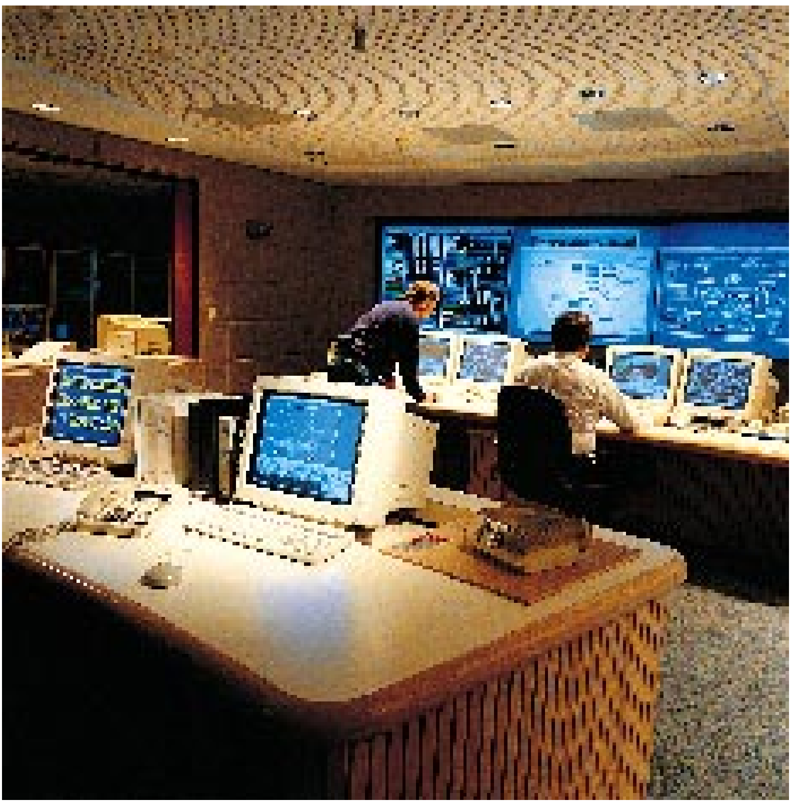


1	Finland	35 %
2	Other Nordic countries	5 %
3	Other Europe	20 %
4	North America	24 %
5	South America	4 %
6	Asia	10 %
7	Other countries	2 %

The process automation delivery to Metsä-Rauma's new pulp mill in Finland includes systems for wood handling, the fiber line, pulp drying, the power plant, chemicals recovery, production reporting and quality management.

Amoco Gas, Chevron Pipe Line and Transco. The most notable deliveries in the electric utility sector were made to Chattanooga, New York and North Carolina. Water and sewage works remote control systems were delivered to the cities of Las Vegas, Houston, Tacoma and Tucson.

SCADA projects implemented outside North America included a system for the Santiago-Buenos Aires pipeline for Gasoducto Gas Andes S.A., five systems for China and one each for Australia, the Bahamas, Egypt, Korea, Mexico, Russia and for the world's biggest oil producer, Saudi Aramco in Saudi Arabia.



OASyS open architecture information management systems have captured more than 50 % of North American markets for oil and gas pipeline transit control. The photo shows the control room of the Kern River Company's gas line in Utah, USA.

NOTABLE MILESTONES Valmet Automation reached some notable product delivery milestones during 1996. The 1000th distributed control system (DCS) was delivered to the pulp and paper industry. Valmet has delivered almost 2000 DCS systems to the process and energy industries and for environmental protection solutions. PaperIQ quality measurement frame deliveries reached their first 100 during the year. The same delivery milestones were also passed for Sensodec systems for paper machine condition and runnability monitoring, and for PaperLab automatic paper testing laboratories.

RESULTS OF R & D In 1996, Valmet Automation invested MFIM 113 in research and development – an increase of 14 % on last year.

The Damatic XD*i* process control system, launched in June, incorporates the latest advances in information technology, and effectively combines process control and information management. Several applications have been developed which allow essential data to be isolated for the purposes of production process management and improved efficiency and economy. The Damatic XD*i* was awarded the prize for the most innovative process control system at the Het Instrument Trade Fair in Holland.

A new kind of paper color control application, using the light spectrum as the control parameter, was developed for papermaking. Likewise, a control application was developed for paper machine dilution headboxes, in cooperation with Valmet's Rautpohja unit. Several production process optimization applications, based on fuzzy logic control, were developed for pulp mill automation, and are in use in four state-of-the art soda recovery boilers.

During 1996, Valmet Automation expanded its distribution network to Chile and Poland. The competence of the customer service units was strengthened by training and new recruitment.

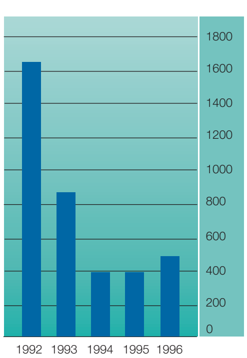
1997 OUTLOOK Demand is expected to remain at 1996's level, although no clear picture of market trends has yet materialized. Investments in technology, new products and in developing the sales and service network in all markets will continue. Emphasis will continue to be put on personnel training, and comprehensive, measurable quality improvement. There will be further intensive cooperation with Valmet's paper machine units, and new expansion opportunities will be actively sought.

Growth in automobile output

Valmet Automotive increased output in 1996, due to the success of the Saab 900 Cabriolet, being sole manufacturer of the Opel Calibra, and commencement of production of the new Euro-Samara. Approximately 28,500 automobiles were made at the Uusikaupunki plant. Profits were satisfactory.

Key Figures, FIM millions	1996	1995
Net Sales	**477**	388
Operating Profit	**105**	94
Total Assets, Dec 31	**493**	387
Personnel, Dec 31	**1 258**	876
Investments and R&D	**120**	35

Net Sales, FIM millions



Board of Directors 1997
Matti Sundberg, Chairman
Juhani Riutta, Vice Chairman
Mauri Jaakonaho
Harri Luoto

Because of continuing buoyant demand, Valmet Automotive produced a record number of nearly 14,000 Saab Cabriolets in 1996. Almost half of them were exported to the United States, where there is a strong market for convertibles. The highest rate of sales growth was achieved in Great Britain. The convertible has also gained popularity outside these main markets, too, particularly in Australia.

As Valmet Automotive held sole production rights to the Opel Calibra for the whole of 1996, a number of Calibras were also exported from Uusikaupunki to the demanding Japanese markets. However, Calibra production is expected to finish this year.

The versatile staff at Valmet Automotive are constantly finding ways to improve quality and working methods.

Porsche AG and Valmet Automotive have signed a letter of intent with regard to producing Porsche Boxster sports cars at the Uusikaupunki automotive plant. Production is planned to begin in the fall of 1997, with an annual output of more than 5,000 vehicles. Despite this, the plant still has unused capacity for new automotive production contracts.

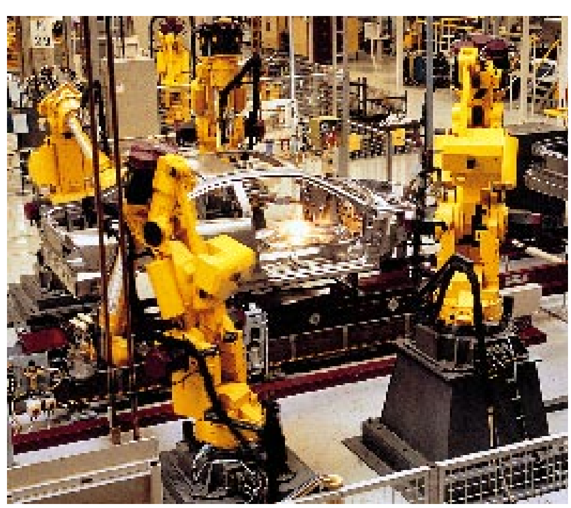
Euro-Samara production commenced in Uusikaupunki in the fall of 1996, just under four months after an agreement had been reached between Valmet Automotive and the largest Russian automobile maker, Avtovaz, to assemble a redesigned Samara for West European markets. Valmet Automotive's subsidiary, Euromotive Inc., is responsible for producing it in a separate manufacturing facility erected adjacent to Uusikaupunki harbor.

Valmet Automotive and Avtovaz have also been exploring the potential for further cooperation. During the year, discussions began regarding the possibility of establishing, together with a third party, a plant in Russia, near the Finnish border, for the production of western automobiles for the Russian market.

Russian political and economical risks as well as logistical questions have had to be taken into account in discussing such contracts, and in the timing and implementation of new projects.

Valmet Automotive significantly improved its ability to provide flexible services for automakers. Information systems concerning materials' management, and the management of workloads and assembly line adjustments were renewed. The investments required in the paint shop for waterborne base coat painting were completed. Waterborne base coat paints will be introduced in series production of the Saab convertible during 1997.

Mr Juhani Riutta, Vice Chairman of the Board of Valmet Automotive and a member of the Board of Directors of Valmet Corporation, was appointed President of Valmet Automotive Inc. on June 1, 1996. Valmet Automotive's long-standing President, Juhani Linnoinen, transferred to Vice Chairman of the Board, from which position he retired in January 1997.



Special automobiles are being assembled on the highly-automated, flexible production line of the welding shop.

Administrative Bodies

Supervisory Board

		Term expires at the Annual General Meeting in
Chairman	Pentti Mäki-Hakola*	until Sept. 20, 1996
Vice Chairman	Teuvo Kinnunen	1999
	Hannu Kemppainen	1997
	Jarmo Leppiniemi	1997
	Leena Luhtanen	1997
	Markku Mäkinen	1997
	Jussi Niemi	1998
	Paavo Rantanen	1997
	Kari Uotila	1999
	Markku Vuorensola	1998

* Subsequent to the death of Mr Pentti Mäki-Hakola, the duties of Chairman of the Supervisory Board of Valmet Corporation have been undertaken by the Vice Chairman, Mr Teuvo Kinnunen.

An amendment to the articles of association abolishing the Supervisory Board will be handled at the Annual General Meeting on April 10, 1997.

Representatives of Personnel Groups on the Supervisory Board in 1995–1997

Martti Luhanko
Matti Palmqvist
Lasse Saarnio
Jorma Muhonen

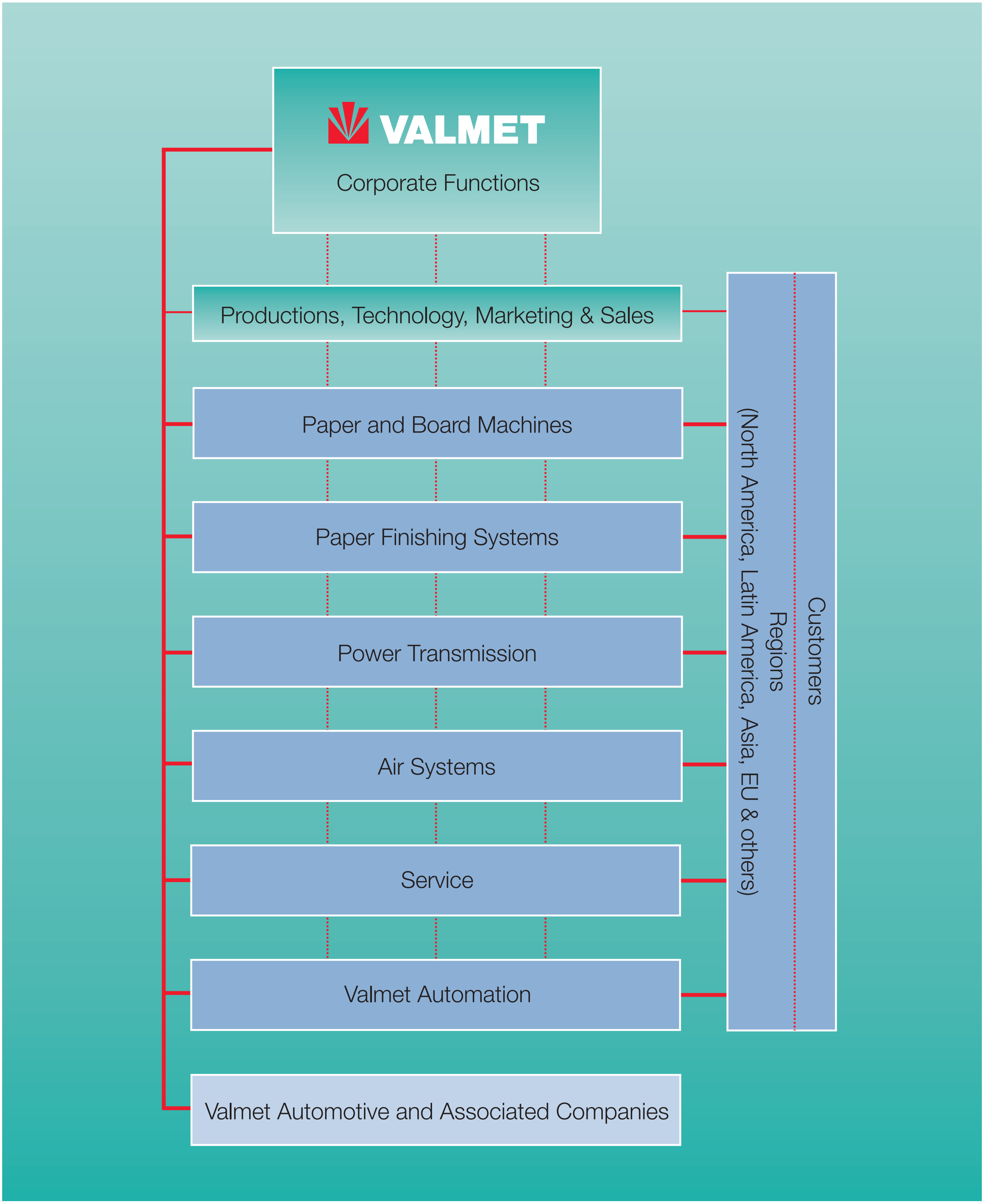
Board of Directors

			Term expires
Chairman	Matti Sundberg	President and CEO	1998
	Mauri Jaakonaho	Executive Vice President	2000
	Markku Kangas	President, Valmet Automation Inc.	1997
	Jaakko Rauramo	President, Sanoma Corporation	1997
	Juhani Riutta	Executive Vice President, Valmet Automotive Inc.	1998
	Raimo Taivalkoski	Executive Vice President, Partek Corporation	1999

Auditor

KPMG Wideri Oy Ab/	
Eero Suomela	Authorized Public Accountant

Valmet Corporation, March 1, 1997



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